UNITED STATES–MEXICO ECONOMIC RELATIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

JUNE 14 AND 28, 1990

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UNITED STATES-MEXICO ECONOMIC RELATIONS

THURSDAY, JUNE 14, 1990

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press releases announcing the hearings follow:]

FOR IMMEDIATE RELEASE
THURSDAY, MAY 17, 1990

SUBCOMMITTEE ON TRADE #28
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON UNITED STATES-MEXICO ECONOMIC RELATIONS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will hold a public hearing on United States-Mexico economic relations. The hearing will be held on Thursday, June 14, 1990, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

The basic purpose of the hearing is to provide a fuller understanding of the status and outlook of United States economic relations with Mexico. The hearing will focus on U.S. and Mexican economic regimes and programs and their impact on bilateral trade and investment, current issues affecting U.S.-Mexican relations and the trade and investment climate, and the institutional frameworks and agenda for dealing with bilateral economic issues. The hearing will also focus on the recent economic reforms undertaken by the Government of Mexico toward liberalization of its international trade and investment regime, the impact of these measures on the Mexican economy, and their implications for U.S. business. The Subcommittee is also interested in receiving views on prospects and proposals for future U.S.-Mexico economic relations.

The Committee has recently received the first phase of a study requested from the U.S. International Trade Commission pursuant to section 332(g) of the Tariff Act of 1930, entitled "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexico Relations" (USITC Publication 2275, April 1990), which provides a factual background for the hearing.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by close of business Wednesday, June 6, 1990. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Monday, June 25, 1990, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statement distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * * * * * * * *

FOR IMMEDIATE RELEASE
FRIDAY, JUNE 8, 1990

SUBCOMMITTEE ON TRADE #30
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A CONTINUATION OF THE PUBLIC HEARING ON UNITED STATES-MEXICO ECONOMIC RELATIONS

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will schedule an additional day of the public hearing on U.S.-Mexico economic relations. The hearing will be held on Thursday, June 28, 1990, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

This hearing is a continuation of the Subcommittee's hearing scheduled to be held on Thursday, June 14, 1990. (See Subcommittee press release #28 dated May 17, 1990.)

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Witnesses who have already requested to appear do not need to make a new request. Any additional requests to be heard must be made by telephone to Harriett Lawler or Diane Kirkland [telephone (202) 225-1721] by close of business Thursday, June 21, 1990. The telephone request should be followed by a formal written request to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

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WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Monday, July 9, 1990, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statement distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, prior to the start of the public hearing.

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Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. **All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.**

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3. **Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.**

4. **A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.**

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * * * * * * * *

Chairman **Gibbons**. This is a meeting of the Trade Subcommittee of the Ways and Means Committee. We are here to discuss a free or freer trade arrangement it has been suggested, with Mexico.

I must say in the beginning that before the two Presidents got together and decided they would have this, Congressman Bill Richardson, our colleague, who is here with us this morning and who will be one of the early witnesses, urged me, pushed me and cajoled me into having these hearings.

My main objective, of course, is to successfully finish the Uruguay round. I want to see a free-trade arrangement, a freer trade arrangement with Mexico, but we have certain priorities we must meet.

The American priority, as I understand it, is still a complete satisfactory arrangement in the Uruguay round that is going on. I have worried for a long time about the number of resources that we can devote to this kind of process because this is an important process, the free-trade arrangement with Mexico, and the number of people that we have that are trained negotiators, the kind of people we must rely upon to bring our decision back here to Congress are really very limited, and they are fully employed right now.

My only reluctance in holding, starting these hearings, Mr. Richardson overcame by his persistence, was the fact we didn't have the resources to properly handle this problem. I want to talk about that in the beginning before I go to other members of this panel and before I go to the witnesses.

In order to have a successful arrangement, we must fully incorporate the views and the ideas of the private sector of the U.S. economy, both those who produce goods because they perhaps own or control companies, but also most assuredly those who labor.

This is not going to be a simple or easy agreement. It will be an historic agreement. As I said, I support it if it is properly prepared and properly done.

I don't expect it will take as long, or certainly it could take as long but I hope it won't take as long, and I am going to try to shorten the time over the time it took to negotiate the Canadian agreement.

I learned a number of things out of that. One is that unless you have a relatively compact time schedule, nothing much gets done until you get close to the end.

You know, there is just no sense in not having some serious bargaining from the very beginning. But I want the private sector fully incorporated into the advisory process and fully informed and consulted with as we go along. And I hope the same thing will happen with our friends from Mexico.

Two, I want a comprehensive agreement. I want a broad agreement. Our trade opportunities between both Mexico and the United States are large. We are at an historic point that we should be able to capitalize on.

I think a proper agreement would be for the benefit of people in both countries. It will raise the standard of living in both countries. I think a proper agreement should be adequately phased in so that the adjustments that occur are not so distorting that there are real personal hardships and financial hardships from this. That doesn't mean there won't be any change. There is going to have to be change in all of this.

So the Mexicans, who are about 70 or 80 million people, an important part of this continent and of this world, our next-door neighbor, our friends, our third largest trading partner, are certainly people that we respect and we want to work with. It will be a challenging task but an important task, and one that I want to wish the best of success.

There are other members here who want to make statements.

Mr. Schulze, I will go to you first.

Mr. SCHULZE. Thank you, Mr. Chairman.

I commend you for initiating these hearings on this critical issue of United States-Mexico relations and the prospects for a free-trade agreement between our countries.

During the committee consideration of and the floor debate on the United States-Canada Free-Trade Agreement, I repeatedly voiced my disappointment that the U.S. side had substituted process for results. In other words, we became so obsessed with concluding a free-trade agreement that the Canadians, seemingly divided at home on the FTA issued, used this to their advantage in negotiations. The Canadians convinced us that if we were too unyielding in certain areas and unwilling to make concessions, then support for the Canadian agreement would disappear.

Am I saying that the negotiators didn't give 110 percent? No, not at all. Am I saying that the United States-Canada FTA was a bad idea and should not have been concluded? On the contrary. In fact, I was one of the earliest supporters of such an idea. All I am saying is that the agreement was not all it could have been, and I don't want to see that happen again.

Regarding the issue at hand, I support the notion of a free-trade agreement with Mexico. In fact, over the past several Congresses I have been an original cosponsor to Congressman Kolbe's resolution expressing the sense of Congress on the benefits and desire of a United States-Mexico FTA.

A united North American Continent clearly would increase our leverage in trade relations vis-a-vis the European Community and the Pacific Rim.

With Mexico's debt level being the second highest in the developing world, its need for foreign exchange is undeniable. Given this fact, it seems clear that Mexico's aim will be to use an FTA to boost its exports to the lucrative U.S. market to the fullest extent possible.

I have no problem with that. That is what an FTA is all about. However, as a developing nation, Mexico will probably be very, very reluctant to further open its own doors. That does present a problem for me.

U.S. Trade Representative's 1990 National Trade Estimates Report on Foreign Trade Barriers detail a plethora of barriers to foreign trade maintained by Mexico. Among other things, the report is critical of Mexico's investment in services barriers, its lack of intellectual property protection and its use of import licensing requirements to restrict U.S. agricultural exports.

With your permission, Mr. Chairman, I would like to insert in the record a copy of this report section on Mexico so that we have that in the record.

Chairman **Gibbons**. Without objection, so ordered.

Mr. **Schulze**. Thank you, Mr. Chairman.

[The information follows:]

9

MEXICO

In 1989 the U.S. trade deficit with Mexico was $2.2 billion or $414 million lower than in 1988. U.S. merchandise exports to Mexico were $25 billion, rising $4.3 billion or 21 percent from 1988. Mexico was the United States' third largest export market in 1989. U.S. imports from Mexico totaled $27.2 billion in 1989, up 15.5 percent from 1988.

The stock of U.S. foreign direct investment in Mexico was $5.5 billion in 1989, $618 million higher than in 1988. U.S. direct investment in Mexico is largely concentrated in the manufacturing sector.

Trade and Investment Understanding With Mexico

During the October 1989 U.S.-Mexican presidential summit, the United States and Mexico agreed to a mandate for "Trade and Investment Facilitation Talks" (TIFTs). TIFTs deepen the U.S.-Mexican trade and investment relationship by providing the umbrella for limited bilateral negotiations on specific trade and investment issues.

TIFTs are to be carried out in a manner consistent with the Uruguay Round GATT talks. They are to be based on the GATT principles of nondiscrimination and most-favored-nation treatment. Thus TIFTs are not aimed at creating a preferential regional free trade arrangement (like that existing between the United States and Canada).

In late 1989 both governments agreed to consider the areas of petrochemicals and standards, regulations, testing, and certification for possible future negotiations. If both sides believe negotiations are appropriate, the tentative plan calls for starting talks in April 1990 and completing them by the end of 1990. At that time discussions would take place on studying additional areas for another cycle of negotiations in 1991.

The TIFTs mandate builds on the 1987 "Understanding Concerning a Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations" (Framework Understanding). This understanding provides a consultation mechanism for resolving trade, investment, and intellectual property rights problems. Under the Framework Understanding, work groups have been established in industry (steel, textiles, electronics, and automobiles), agriculture, investment and IPR, services (transportation and insurance), tariffs, and coordination.

1. IMPORT POLICIES

Tariffs

The role of tariffs as a trade policy tool has increased as Mexico has reduced the number of items subject to import licensing requirements.

Mexico

Since 1985 Mexico has both rationalized its tariff regime through a broad tariff reduction program and consolidated the number of tariff levels.

In December 1987 Mexico unilaterally set the maximum applied tariff at 20 percent. A year later the tariff schedule was rationalized so the vast majority of tariffs are between 10 and 20 percent.

Mexico's trade-weighted average tariff is approximately 11 percent, a significant achievement for a developing nation. The level of Mexican tariffs is lower than required under its GATT Protocol of Accession. The protocol includes an overall ceiling binding of 50 percent for those products not covered by a lower individual tariff line binding.

In the context of the Uruguay Round, in July 1989 the United States asked Mexico to bind its tariffs at currently applied rates. The United States also requested additional reductions on a limited number of tariffs. By early 1990 the United States had received neither a tariff request list from Mexico nor a response to the U.S. request list of Mexico.

Import Licensing

As part of its "protection rationalization" policy, Mexico has significantly reduced the number of items subject to import licensing. This policy should lead toward fulfilling Mexico's GATT commitment to gradually eliminate all import licensing permits.

At the time it acceded to the GATT, the Mexican import licensing scheme covered approximately 820 items. By early 1990 approximately 250 items remained subject to such requirements.

Additional changes in the scheme appear to be planned for the near future. The Salinas Administration has announced plans that, while keeping licenses for most agricultural goods, begin to eliminate those for automobiles, pharmaceuticals, and computers.

The changes envisioned for the automotive sector permit limited imports of some foreign vehicles starting in November 1990. Planned changes in the other two sectors had not been released by February 1990.

Import licensing requirements continue to adversely affect many U.S. agricultural exports (particularly apples, grapes, peaches, and wheat). Although licensing requirements now affect less than 5 percent of Mexican tariff categories, those categories represent approximately 70 percent of Mexican agricultural imports from the United States.

Further adding to the burdensome nature of these remaining import licenses is their nontransparent administration. Indeed, many times they function as complete import bans (as in the case of apples).

2. STANDARDS, TESTING, LABELING, CERTIFICATION

In November 1989 the United States and Mexico agreed to study the area of "standards, regulations, testing, and certification" under the TIFT. A major U.S. goal is to create transparent procedures by which Mexican standards and regulations are set, testing is conducted, and certification systems are maintained.

In addition, the United States hopes to establish a long-term process for harmonizing Mexican and U.S. standards and regulations and examine specific standards-related trade barriers that impede trade between the two nations. Recent examples of specific complaints from U.S. interests include problems related to beverage alcohol products and soft drinks.

The first problem involved a February 1988 agreement that removed Mexican import licensing requirements for beer and wine products. Despite the agreement, in 1989 U.S. exporters complained imports were discouraged because of Mexican trade barriers in the form of discriminatory tax assessments and unfair registration requirements. These problems were resolved through bilateral discussions under the Framework Understanding.

Another problem arose with soft drink exports to Mexico. Complaints involved Mexican packaging rules that limit a firm's ability to form appropriate marketing strategies for its products. U.S. interests alleged that in 1988 Mexican government officials assured Mexican bottlers of international-brand (including U.S. brands) soft drinks that they would approve applications to distribute international brands in container sizes previously available only to national brand bottlers.

Framework Understanding discussions led to an interim solution to the problem and Mexico's commitment to apply the same standards to bottlers of international and national brands.

Regulatory problems also arose in the agricultural sector in 1989. Mexico imposed stringent regulations that restricted the importation of hogs, cattle, sheep, and goats for slaughter in Mexico. Mexico's rationale for the restrictions rested upon the need to stop the spread of animal diseases.

Bilateral technical talks resolved the problem and lead to the creation of five work groups staffed by animal and plant experts from both nations. The work groups are under the jurisdiction of the U.S. and Mexican departments of agriculture.

3. GOVERNMENT PROCUREMENT

Under Mexican law, the federal government and state-owned enterprises are required to issue invitations to bid on contracts for purchases, leases, and providing services connected with goods. Tenderings are officially open to suppliers from all countries, whether GATT members or not.

Mexican law gives preference to Mexican goods and services to promote national development. Before drawing up agreements for procuring foreign goods or services imported directly or bought in Mexico, government offices must also get Department of Trade and Industrial Development authorization. However, in mid-1988 parastatal companies were exempted from this import license requirement.

The United States encourages Mexico's accession to the GATT Government Procurement Code on terms that provide significant commercial opportunities to U.S. exporters. Mexican firms are now prohibited from winning code-covered contracts in the United States. This should be an incentive for Mexico to open its government procurement market to the United States.

Mexico

As a GATT Contracting Party, Mexico is bound by obligations that require state-owned enterprises to make purchases in a nondiscriminatory manner and to be governed by commercial considerations. In addition, enterprises in other GATT countries must be given an opportunity to compete for such purchases or sales. The United States is monitoring Mexico's compliance with its GATT obligations in this sector.

4. LACK OF INTELLECTUAL PROPERTY PROTECTION

Fruitful discussions on intellectual property issues were held in 1989. These discussions resulted from Mexico's realization that protecting intellectual property was in its own self interest, particularly as government officials promoted foreign investment in Mexico.

The discussions also resulted from the Administration's placing Mexico on the "priority watch list" under the "special 301" provision of the 1988 Trade Act in May 1989. Discussions have led U.S. trade officials to believe that Mexican and U.S. officials share the same interest in improving intellectual property rights protection in Mexico.

Patents

The United States seeks improvement in Mexico's patent laws. Currently process patent protection is provided for 14 years from date of grant. Moreover, product patent protection is not now available for chemicals, pharmaceuticals, alloys, and foods. Such protection will not become available until 1997. No protection is planned for biotechnologies.

The major U.S. objective in the patents area is to obtain immediate product patent protection for all products. Other objectives include interim product-patent protection during phase-in, extending the patent term from 14 to 20 years from filing, improving the enforcement of trade secret protection, and shifting the burden of proof to the alleged infringer in process patent cases.

In January 1990, Mexico published its "National Industry and Foreign Trade Modernization Program" which includes a commitment to strengthen the country's IPR legislation in a manner consistent with improvements sought by U.S. interests. Immediately after the publication, the Mexican Commerce Secretary publicly stated Mexico's intention to seek a new patent law in 1990 and implement it in 1991.

Following these events, Mexico was removed from the "special 301 priority watch list" based on Mexico's commitment to improve intellectual property rights protection.

Copyrights

The Intellectual Property Work Group of the Framework Understanding has initiated discussions on copyright issues. At its first meeting in January 1990, Mexico expressed its strong support for comprehensive copyright protection for all classes of works including films, sound recordings, and computer software.

Some recent Mexican actions to strengthen copyright protection include drafting legislation to provide tougher criminal penalties for copyright violations in general, include sound recordings under the copyright penal code, and cover computer programs as protected works.

Mexican cable systems, hotels and other establishments routinely intercept, retransmit, and distribute U.S. broadcast and satellite signals containing copyrighted works. The Mexican copyright law establishes that such activities are a "public performance" requiring copyright owners' consent. Under the Universal Copyright Convention and the Brussels Satellite Convention, Mexico must give U.S. copyright owners the right to authorize public performance of works borne by program-carrying signals.

Other copyright issues include U.S. motion picture video cassette piracy by Mexican "video clubs," parallel imports into the United States of Mexican sound recordings licensed for distribution only in Mexico, and the diversion of theatrical royalties due U.S. performers under Mexican law. In addition, the Business Software Association has expressed its concern over the inadequacy of Mexican copyright protection.

Enforcement

The Mexican Attorney General's office has the authority to initiate investigations and take all necessary steps to protect intellectual property (including securing documents and property). The understaffed Mexican Patent and Trademark Office must issue an administrative ruling on each case before it goes before a court.

The Mexican Patent and Trademark Office understands the interests of Mexican and foreign producers in ensuring sound protection of intellectual property. In 1989 that office initiated several precedent setting cases to publicly demonstrate its intention of upgrading Mexican enforcement in this area.

5. SERVICES BARRIERS

Motor Carriers

Mexico undertook far-reaching deregulation of trucking and bus operations within Mexico in 1989 and early 1990. Domestic routes and rates were deregulated and monopoly rights previously enjoyed by unions for certain transportation activities were ended. These steps have created a more competitive, outward-looking environment in Mexico that may facilitate U.S. access to the motor carrier market.

Despite these positive developments, ownership and operation of air, maritime and land transportation continues to be reserved to Mexican nationals. The recent Mexican liberalization of investment regulations specifically excluded the transportation sector.

In 1989 the United States and Mexico held three Transportation Work Group meetings. An additional meeting was held early in 1990. The meetings were largely informational and included public sessions where carriers, shippers customs brokers, and other interested parties presented their views on access and safety.

Mexico

In August 1989 the work group agreed on a "plan of action" to address the problems identified to date. The action plan calls for increasing access of trucks and buses to improve border transport and tourism, facilitating border crossings, working toward mutual recognition of driver licenses, and strengthening cooperation on motor safety issues.

Trucking: Since 1982 Mexican motor carriers have been prohibited from operating in the United States (outside of border "commercial zones"). U.S. motor carrier operators have no access to the Mexican interior or Mexican border areas (except through special arrangements that vary from port to port). A number of U.S. companies have interlining arrangements with Mexican trucking firms largely characterized by Mexican trucks which pick up and drop off on the U.S. side of the border. -

Bus Operations: U.S. regular route bus operators have limited access to the Mexican border area, while their Mexican counterparts operate regular cross-border service. Access for U.S. bus charter companies into Mexico improved during 1989. Further liberalization for charter tour operations is expected in 1990.

Insurance

Mexican law traditionally incorporated several major insurance sector barriers. Many of these barriers were removed in early 1990 when Mexico issued a new insurance regulation.

The regulation increases the limit of permitted foreign investment to 49 percent and eliminates the requirement that insurers place at least 50 percent of their reinsurance in the Mexican market. The new regulation does not alter the prohibition on the import and export of primary insurance.

Premium volume in Mexico is substantially above $1 billion each year and could grow significantly in the next few years. Mexico has shown interest in exploring flexible policies in equity participation. Recent insurance discussions under the Framework Understanding revealed a willingness to consider a further liberalization in the insurance industry and the desire to resolve cross-border insurance issues.

Telecommunications

Mexico has initiated several steps that should radically change the Mexican telecommunications sector. These steps include proceeding with plans to privatize Telefonos de Mexico (Telmex), liberalize foreign investment rules, introduce competition in some telecommunications service sectors, institute competitive long-distance service to the United States, and restructure the regulatory entities managing Mexico's telecommunications sector.

In addition, Mexico plans to split off its operations arm and combine it with the national telex network (Telenales) so it can compete as a government-owned services parastatal. The company--to be called Telecom--will provide services for and in competition with private companies (including Telmex). At the same time Mexico plans to assume a regulatory role in its telecommunications sector.

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Mexico

6. INVESTMENT BARRIERS

Under the Framework Agreement, the United States has continued to pursue investment issues to further facilitate capital flows. As the major source of all foreign investment in Mexico, the United States has a strong interest in encouraging favorable conditions for new and additional investment by U.S. firms.

The ultimate U.S. policy goal is to secure Mexican laws that permit, in an unrestricted manner, foreign investment. Currently, the 1973 Investment Law limits foreign investment in certain sectors (e.g., transportation, secondary petrochemicals, electric utilities, and insurance) and forbids foreign ownership in other sectors (primary petrochemicals, mining, and financial services) with some exceptions.

In 1989 Mexico dramatically changed its investment rules as a result of President Salinas's strong personal interest in encouraging new foreign investment. In May the government issued new regulations governing foreign investment that liberalized previous approval procedures and ownership rules. These regulations have opened approximately 60 percent of the Mexican economy to individual foreign investments of up to $100 million (provided that certain criteria are met).

In mid-1989 a redefinition of the secondary petrochemicals industry led to opening investment opportunities in the tertiary petrochemical sector. In late 1989 Mexico announced liberalized rules in the banking sector. Under the new regulations, foreigners are allowed to invest a maximum of 34 percent of the additional paid-in capital of an individual bank. However, these are nonvoting shares.

Mr. **Schulze**. In conclusion, let me reiterate my support for the idea and the concept of a United States-Mexico trade agreement. However, I am going to monitor the negotiations very closely to ensure that Mexico doesn't expect the United States to come only bearing gifts. We will come bearing demands as well. And if Mexico really wants an FTA, and all the obvious benefits such a pact would yield, I would suggest it be prepared to deal—and deal seriously.

In the interest of doing what is best for America, this member and this committee will not allow these negotiations to become a one-way street.

I thank you, Mr. Chairman. I look forward to having successful negotiations.

In conclusion, I look forward to Ambassador Hill's testimony and that of the other witnesses.

Chairman **Gibbons**. Thank you, Mr. Schulze.

Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I, too, would like to take this opportunity for congratulating you for calling this hearing. Given the increased closeness of our economic ties with Mexico, I am hopeful that this will be the first of many hearings on this issue. If nothing else, I hope this hearing brings to light the remarkable economic reforms which President Salinas has overseen in Mexico.

As cochairman with my friend Jim Kolbe of the competitiveness caucus task force on Mexico, I had the opportunity to visit Mexico last August and witness first-hand the dramatic changes which are under way there.

For an excellent documentation of Mexico's economic reforms, I commend to you phase 1 of the International Trade Commission's Mexico study. Since joining the GATT in 1986, Mexico removed export restrictions and eased import rules. President Salinas opened Mexico's economy to international competition.

Mexico's reforms have not gone completely unnoticed by the U.S. Government. By way of reward, we have doubled Mexico's share of our steel market, offered them $2.5 billion in GSP benefits in 1990, and we have relieved to a small extent Mexico's heavy debt burden through the Brady plan.

Just 2 days ago, Presidents Bush and Salinas announced their intentions to negotiate a bilateral free-trade agreement. Though the details of such an agreement, of course, are still undecided, it is expected that, like the United States-Canada FTA, a United States-Mexico FTA would include the free flow of trade, services, and investment.

Mr. Chairman, viewed strictly in macroeconomic terms, a North American FTA is an attractive idea. By eliminating barriers to investment and trade, economic efficiency and economic growth are increased. In other words, the overall economic pie grows larger. It is much less clear, however, how specific groups in the United States and Mexico would fare under such a trade regime.

One concern that I have is how American industrial workers would do. Their counterparts in Mexico make far less than they do. But will the FTA have a depressing effect on U.S. industrial wages? One certainly suspects so. This is the kind of issue that needs to be addressed extensively and soon.

Before President Salinas announced his decision to pursue an FTA with the United States, he held a series of hearings in his country to gather information and input. We need to be doing our homework, too, and today's hearing is a good start.

Before we enter into an FTA with Mexico, let's try to figure out what the likely effects would be. Given the differences in the United States and Mexican economies, I suspect that there will be both winners and losers if we enter into an FTA.

I would like to know which industries are likely to be in each of those categories before we blithely enter into an FTA with Mexico based on economic theory alone.

Again, Mr. Chairman, I want to commend you for holding this hearing. I look forward to listening to today's witnesses.

Chairman GIBBONS. Thank you.

Mr. Rangel, would you like to make a statement now?

Mr. RANGEL. Mr. Chairman, that is very kind of you. I am not a member of your subcommittee.

Chairman GIBBONS. You are an important member of this committee of Congress, sir. We respect you.

Mr. RANGEL. I appreciate the courtesy that has been extended to me.

I do recognize that our nation's economy is based on effective trade and trade policy, and that I am excited about the opportunity of having a more liberal trading policy with our friends south of the border. I don't, however, see how we can talk about doing this without taking into consideration the fact that as we liberalize trade, we make it more difficult to prevent contraband from coming into the United States.

And while Chairman de la Garza and I have both, with other members of Congress, lauded the efforts that have been made by President Salinas and increased cooperation with the United States attacking corruption and moving forward in terms of prosecuting those drug traffickers that work within our respective countries, that we cannot ignore the fact that 50 percent or more of the cocaine that comes into the United States comes across the United States-Mexican border. That amount has doubled since 1988 from 15 metric tons to over 38 metric tons; that heroin has increased from 7 million metric tons to 9 million metric tons; and that we have had a tripling of the amount of marijuana that is coming into the United States to 716 metric tons.

It seems to me that if we are talking about expanding and liberalizing trade with our friends in Mexico, that we cannot have discussions and just ignore the fact that our borders are vulnerable and that we do continuously need help and that this is a very serious problem that, as the President has accurately pointed out, affects the national security of our Republic.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Now, Mr. de la Garza, chairman of the Agriculture Committee, who stayed up all night working on the farm bill and who, for as long as I can remember, and it is a long time, almost ever since the beginning of his congressional term has been chairman of the U.S.

delegation of parliamentarians that meets with the Mexicans. I know of his very fine and constructive work and long-time interest in this challenge we have before us.

Mr. de la Garza, Mr. Chairman, go right ahead.

STATEMENT OF HON. E DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS, CHAIRMAN, COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES, AND CHAIRMAN, MEXICO-UNITED STATES INTERPARLIAMENTARY GROUP

Mr. DE LA GARZA. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before the subcommittee and present my views regarding United States-Mexico relations in the 1990's.

I, too, Mr. Chairman, commend you for holding this hearing and look forward to working with you and your subcommittee.

Economic relations between the United States and Mexico are better than ever. I think all of us would agree that much of the credit goes to Mexico and to the bold leadership of President Salinas. Actions initiated by President Salinas has ushered in a new era of mutual cooperation, friendship, and respect between our two countries.

Mexico has taken bold steps over the past 2 years to improve the political and economic climate for foreign and domestic investment, has lifted many restrictions and deregulated several key economic sectors, including the recent constitutional amendment that President Salinas sent to the Mexican Congress to return the banking sector to private hands.

These trade and economic reforms promise to make Mexico a stronger and more competitive nation in the years ahead. But the impact of President Salinas' actions to modernize Mexico and to elevate its economy does not stop at the banks of the Rio Grande or Rio Bravo, where my congressional district lies. These changes have translated into benefits to the United States and to U.S. economic activity. In fact, trade and economic liberalization has enabled U.S. exports to Mexico to increase by around $10 million since 1987, reaching close to $26 billion last year.

As chairman of the House Committee on Agriculture, many people have begun to ask me what impact would a free-trade agreement with Mexico have on the U.S. agriculture sector. I tell them that our relationship with Mexico should continue to be complementary and not competitive. Such as with our cantaloupe legislation, Mr. Chairman, that you and your subcommittee worked on. At present, cantaloupes enter duty-free at the time when we don't harvest any cantaloupes in the United States.

That is what I mean by complementary, Mr. Chairman. Our agriculture trade relationship with Mexico is very important to all of us in the U.S. agricultural sector.

Mexico is not only our third largest trading partner in the world after Canada and Japan, but also our third largest market for U.S. agriculture products. Only Japan and the Soviet Union as a single country are larger. Our total two-way trade in 1989 surpassed $5 billion. We exported to Mexico close to $3 billion and imported around $2.3 billion.

Agriculture accounted for more than 10 percent of our total two-way trade. We export to Mexico a variety of products such as coarse grains and oil seeds, livestock, dairy products, and even sugar, to name a few. Proximity to the U.S. market and the availability of medium-term financing through the Commodity Credit Corporation GSM credit program has allowed the United States to maintain its position as Mexico's principal supplier of agriculture goods.

As a matter of fact, at present Mexico is the largest beneficiary of the CCC's GSM credit program. On the other hand, since 1982 Mexico has ranked among the top three suppliers of agriculture commodities to the United States providing us with, among others, coffee, fruit, vegetables, and live cattle.

The other two-way trade partners in that area, of course, are Canada and Brazil, as the chairman is well acquainted with.

I strongly believe two-way agriculture trade can be substantially increased, but only if both countries address several issues that presently impede the growth of United States-Mexico agricultural trade. High on the list are Mexico's 60 or so remaining GATT inconsistent import license requirements that are still mandated on agricultural products.

We recently were very happy to have been able to resolve the exporting of apples to Mexico. Several permits have been given. Agreement with Mexico, a free-trade agreement with Mexico, I believe, could be beneficial since it would remove these unpredictable nontariff barriers. I proposed to Mexico's Secretary of Commerce and Agriculture to temporarily convert these 60 license requirements on agricultural products into seasonal tariffs and/or tariff quotas, such as we have done, Mr. Chairman, with the cantaloupes. Eventually these seasonal tariffs and quotas could be abolished altogether, similarly to what Mexico has already done on nearly 10,000 product categories.

In addition, we must also address other nontariff barriers that impede bilateral agriculture trade such as health and sanitary issues, custom procedures, transportation and other infrastructural constraints at the Mexico-United States border.

Like you, Mr. Chairman, I agree that we should devote our attention to the Uruguay round agenda. And if we are not able to agree to multilateral health and sanitary mechanism at the GATT, I would like to suggest a free-trade agreement with Mexico include a dispute settlement mechanism that addresses health and vital sanitary issues at a bilateral level. These unpredictable health and vital sanitary nontariff barriers have amounted to a great deal in lost sales for both the United States and Mexican products.

In order for the Committee on Agriculture to contribute to this debate, Mr. Chairman, last year I requested the General Accounting Office to conduct a comprehensive study on United States-Mexico agriculture relations. The study has reported that bilateral agriculture trade has leapfrogged at an average annual rate of 11.6 percent between 1982 and 1989 compared to a 2.3 percent growth rate for U.S. agriculture worldwide. I am expecting the full comprehensive report will have specific recommendations on improving our bilateral relations.

In addition, Mr. Chairman, I have authored a proposal in the farm bill requesting the Secretary of Agriculture to study the impact of a United States-Mexico free-trade agreement and a North America free-trade area on the U.S. agriculture sector.

I also plan along with you and other committees to hold hearings on such an agreement as to how it would impact on the U.S. agricultural sector.

Mr. Chairman, last year Mexico purchased around 7 percent of our total world exports. Mexico's population is to be around 100 million by the year 2000. Nowhere is the potential expansion for U.S. agriculture greater than with our neighbor to the south.

In conclusion, Mr. Chairman, as all of us know, earlier this week President Bush and President Salinas agreed to begin consultative talks before initiating formal negotiations on a free-trade agreement. I welcome this announcement since it is an appropriate first step to take in formulating an acceptable and workable agreement between our two countries.

But as you might remember from our experience with the United States-Canada Free-Trade Agreement, as it has been mentioned here earlier by Mr. Schulze, we must be cautious in our approach to this possible free-trade agreement. Neither country can afford to accelerate this process. I personally discussed this with both President Bush and President Salinas, and I am happy to hear that they agreed with my suggestion.

Our neighbors in Canada, Mr. Chairman, are looking carefully at what happens between the United States and Mexico. I think that if we are able to achieve a free-trade agreement with Mexico, it will be very difficult for Canada not to be a part of such an agreement.

Economically speaking, we are on the verge of creating a North America free-trade area. By the year 2000, this trilateral relationship could include 380 to 400 million people. A North American free-trade area will undoubtedly boost North America's living standards and, most importantly, make our continent an impressive competitor to the European Community and Asia. We could undoubtedly be creating the biggest affluent economic market in the world, in the history of the world.

Mr. Chairman, there is no question that trade between the United States and Mexico is natural and inevitable. I believe we must cautiously pursue a complementary and mutually beneficial free-trade agreement, an agreement that both countries should pursue with a vision of future prosperity and in the spirit of mutual respect and equality.

Mr. Chairman, a political, social and economically stable Mexico is important to the vital interest of the United States—indeed, to our own national security.

Thank you for allowing me to speak on this subject, Mr. Chairman. I would be happy to answer any questions there would be. I look forward to working with you and your subcommittee.

Chairman GIBBONS. Mr. Chairman, I want to thank you for your very informative statement but also for your very wise statement.

But I have come to expect that from Kika de la Garza since I have known you.

I want to make a few comments. I don't have any questions for you.

You mentioned Canada. I should have in my opening remarks. Canada is our largest, by country, trading partner. We have certainly an obligation to talk with them about this and invite them to participate in it to the extent that they wish to. I hope that by what has been said here this morning that the Canadians will take that as a clear signal of friendship and that we do not intend to undercut the agreement that we have worked out with them and that they had such a laborious time adopting.

I want to continue working with Canada. I would invite them to participate to the extent that they can in all of this discussion. And I think you have made a good suggestion that we probably include them and hope that they will be included in a Canadian-Mexican-United States free-trade agreement.

I am just not seeking to build huge groups of blocks. I am seeking trade freedom all over the world. But certainly I don't know that our cooperating here on the North American Continent is in any way inconsistent with our overall work under GATT and our overall obligations to other trading partners.

I believe that by increasing the standard of all those here on the North American Continent we will create greater opportunities for everyone. That is the spirit in which I think we ought to proceed.

Let's see. Mr. Schulze, do you have questions?

Mr. SCHULZE. Mr. Chairman, I would like to agree very much with your statement and compliment Chairman de la Garza on his very perceptive view of this potential agreement. I share his vision of a North American market, including Canada, United States, and Mexico. And I think it would be advantageous for all three nations.

I also view the Canadian agreement as a floor to build upon. That we can go forward from there.

I have got to be honest with you. I will take it one step further. I was recently in Argentina and Brazil and strongly urged them to continue negotiating a free-trade agreement between those two nations, which could develop into the basis of a free-trade agreement in all of South America. Then we take the Caribbean countries. As they congeal into a solid trading block, I envision somewhere between 2000 and 2010 an American trading bloc, both North America, South America, and the Caribbean.

What will that do? That will raise the standard of living of the entire North and South American Continents and the Caribbean area. It will put us in a very powerful position to negotiate if other blocs from around the world.

I agree with the chairman. We shouldn't do this just for the sake of forming blocs or power blocs, but we should do it because it is right for international trade, and we should do it in the freest manner possible with as few barriers as possible. And those barriers which are in place should be phased out over a period of time.

I think especially in South America and the Caribbean and perhaps Mexico, who have felt neglected by the colossalness of the North, they will realize they can deal with us from a basis of strength and equity if they continue on this process. I think it will raise the standard of living of both the North and South American Continent.

I commend the chairman. I, too, don't have any questions for him because his statement was so perceptive and so all-inclusive that I appreciate his presentation and look forward to working with him in the future.

Mr. **DE LA GARZA.** I thank the gentleman for his kind words.

Let me mention the recent visit of President Salinas and the gentleman's visionary, futuristic direction is indeed healthy and salutary because President Salinas mentioned, he said you often hear about the colossus of the North. He said south of us they consider Mexico the colossus of the North. So we have to go south and include our neighbors, our friends and brothers south of Mexico.

Mr. **SCHULZE.** Mr. Chairman, I also think if they can get an agreement in South America that they will be dealing with us more as equals, and we will not feel inhibited by that relationship. And it will strengthen all of us. I think it will be a marvelous thing if we can accomplish it in the next decade or so.

Chairman **GIBBONS.** Thank you.

Mr. Guarini.

Mr. **GUARINI.** I want to commend you in regard to your broad picture and the position you take in regard to our relationship with Mexico.

We have this unguarded border, over 2,000 miles. By the year 2000, experts estimate the number of Spanish-speaking residents in the United States will be second to only those in Mexico. There will be an increasingly close relationship with Mexico geopolitically, economically, and culturally.

Could you just comment on processed foods? The Government charges a 20 percent tariff on American processed foods that go into Mexico, is that correct?

Mr. **DE LA GARZA.** The figure varies. Yes, those are—of the 60 remaining that you have licensed or tariffed, there is still a problem there. This is one of the areas that we could increase sales to Mexico tremendously because they don't have the capability. They don't have the infrastructure.

I like the attitude of President Salinas. He is only going to be there for 6 years. This attitude is a complementary, what we can do best and what they can do best.

And also in a speech to the Business Roundtable, the question was about workers. He said he doesn't want to export Mexican workers to the United States. He wants Mexican workers to stay in Mexico. And he said, to the extent that we can complement them, that is the whole process.

I am very enthusiastic also that their Secretary of—equivalent of our Secretary of Commerce, he feels the same way, that we should complement. You understand because of living on the border, you must understand that what they have done, as I mentioned in my statement, cautiously has been very bold. It has been more than bold. It has been very courageous because it has been against history, against the established infrastructure, against the political aspect in Mexico. I am looking forward to more breakthroughs in that area.

Mr. Guarini. President Salinas indicated when he first went into office that he may consider sector kind of trade agreements, but never a broad trade agreement as he is proposing now. So that he has changed his mind, I understand, having seen what has happened in the Common Market of Europe and what is going on in the world globally, that he now takes a very big, broad view.

It is to his credit, I believe, that he is opening up this prospect.

Mr. de la Garza. He has come 180 degrees in the broad agreement.

Mr. Guarini. The maquiladora has worked out very well, hasn't it?

Mr. de la Garza. That has worked out very well on the border for us. It has enhanced the standard of living more on the Mexican side than on the United States side. A free-trade agreement probably would negate the need for special treatment of the maquiladora we now have. They would be incorporated into the infrastructure on both sides of the river.

I think probably that would be healthy that parts and supplies would come from either side, north or south. For now I know it is a major irritant. Jobs that could have gone to the Pacific Rim came to the border of Texas, California, Arizona, not as much New Mexico. It is painful to see our brethren in so many areas of the United States losing.

Then the question came, where will they go? My congressional district is probably the poorest, among the poorest, I regret to say, in the United States. The main labor force there is seasonal agriculture. Any job that we can get that lasts for a whole year, it is a godsend for us. The maquiladoras helped in that respect.

Mr. Guarini. What do we say to the labor unions that are concerned about losing what they estimate to be 400,000 jobs in the United States because of the differential in pay scales?

Mr. de la Garza. I don't know that. There is a differential here already. Recently there was some discussion in California's agriculture sector. But Texas pay scale, unfortunately for the worker, is lower in California. Pay scales between my area and Texas and the Northeast are substantially lower.

I think this has to be discussed fully. I know organized labor will be a major participant on both sides of the river.

I suggested to the Majority Leader of the Mexican Senate last week as he accompanied President Salinas that the highest level of Mexican, the Mexican labor movement should initiate their dialog with the highest level of our labor movement so they can look from their perspective at labor-to-labor organization as to what impact this could have.

Mr. Guarini. Thank you for your good work.

Chairman Gibbons. Mr. Downey.

Mr. Downey. Mr. Chairman, I want to thank our colleague for appearing before us. It is nice to know I may actually be in agreement with them on a major issue.

I want to observe that Mexicans don't grow sugar as far as I can tell.

Mr. de la Garza. Yes, Mexico grows sugar. As a matter of fact, 25 years ago they were a major export to the United States. Now they are a net importer. We are transshipping some sugar to

Mexico now, which should be helpful to the interests of what the gentleman and I discuss quite often.

Mr. **Downey**. I thank the gentleman for appearing. I look forward to working with him.

Mr. **de la Garza**. Thank you very much.

Chairman **Gibbons**. Mr. Crane.

Mr. **Crane**. I simply want to commend my distinguished cousin. A lot of folks don't realize it, but Kika and I are related. He uses the Spanish spelling of our family name, Garza, which actually means Crane. I have got his coat of arms on my wall. But I want to congratulate you for endorsing this concept and look forward to working with you in the implementation.

Thank you.

Chairman **Gibbons**. Mr. Thomas.

Mr. **Thomas**. Thank you very much, Mr. Chairman.

I welcome my former chairman on the Agriculture Committee. I have participated in the United States-Israeli Free-Trade Agreement, obviously in the United States-Canadian Free-Trade Agreement. And as we pursue the possibility of a trade agreement between the United States and Mexico, I approach it with as much hope and promise as I did the others.

But I think the chairman will agree with me, as clearly his statements indicate, that one of the areas we are going to have to focus on with some great intensity, because it will lay the groundwork, set aside the United States-Israeli Free-Trade Agreement in minimum agricultural areas, that a United States-Mexico free-trade agreement or some eventual free-trade agreement between the United States and Mexico will bear its most immediate fruit in the agriculture area. And we need to be as good as we can be in writing the provisions in this area because it will set precedent.

We did not have a significant role with agriculture in the United States-Canadian Free-Trade Agreement. There was some, but clearly not the central player.

Does the chairman agree with me that the agriculture question, the importation of agricultural commodities, many of which are simply an extension of the Southwest agricultural area which has an artificial political border between the United States and Mexico, meaning that the kinds of crops that can be grown north of that border are virtually identical to the kind of crops that can be grown south of that border, and indeed they are. And this particular area of the treaty will be one of the more difficult ones to work on.

Mr. **de la Garza**. I agree with the gentleman wholeheartedly. That is what I have stated in my statement, that we should approach the issue cautiously and with great deliberation.

I don't disagree, but I would add that the complementary aspect is very important because the southern regions of Mexico have a possibility to complement, because of seasonwise, the optimum, Argentina and Chile, where the seasons are completely reversed.

When I came to Congress, there was great interest. They call them the strawberry wars between the Pacific Coast and Mexico. They disappeared for many reasons. One of them was that Mexico moved the operation further south where they would come in at the time that we didn't have our strawberries.

I think this is very important. We also, more the private sector than government, there was minimum involvement from government. We also worked with Mexico to process and export to the European sector, to Europe, England, France. So strawberries that would otherwise at a point in time be competing with ours, we helped them send to another area of need. I think this has to be looked at also within the discussion.

Mr. THOMAS. I definitely agree with the chairman that a complementary arrangement would be the most satisfactory way in which the agricultural products of Mexico could blend in the marketplace with American-produced products.

My biggest concern, that is areas which are totally comparable both in crop production and in seasonality, and where American agribusiness has moved in recent years will be a difficult area in which to resolve the agriculture concerns of both Mexico and the United States. But where we could utilize the alternate seasonality aspect, there is no question this would be a tremendous boost to Mexico.

Clearly, there would be some conflict with Argentina and more and more Chile in terms of offering in those winter months fresh vegetables and fruits, but this is an area that I look forward to in creating a working, cooperative arrangement.

I just hope that it isn't soured by an attempt to move products which are currently not available in the American market or Mexico for vital sanitary reasons and other reasons close to the border.

It is going to be a difficult operation. I think if we can pull it off successfully, it will be mutually beneficial both to the producers in the United States and Mexico, and most importantly, to the consumers in these countries.

I appreciate the chairman of the Agriculture Committee. I have fond memories of that initial trip we took to Mexico when you were made chairman of that committee, and know we have a lot of friends there. I look forward to working with them in solving this problem. I think the solution is long overdue.

Mr. DE LA GARZA. I thank the gentleman

Yes, the gentleman is correct. As a matter of fact, all of the areas the gentleman is mentioning, but for an accident of history last century in Texas, that would all still be Mexico.

Mr. THOMAS. Or for an accident of history, all of that south of the border would necessarily be part of a larger union in both north and south.

Thank you.

Chairman GIBBONS. Let's don't have any more accidents.

Thank you, Mr. Chairman. We appreciate it.

I am going next to Mr. Richardson and Mr. Kolbe. I see Ms. Hills here. I know she is involved in so many things.

Mr. Kolbe and Mr. Richardson, would you come forward. I want to get to Mrs. Hills as rapidly as I can.

Mr. Richardson, I want to thank you for being such a strong motivator in getting these hearings started and for the fine job you have done.

I also note Mr. Kolbe's long-term interest in this and his effectiveness.

Senator Deconcini was going to be here this morning, but he is involved in the delicate budget process. I am permitted to say he supports this, but we will let him speak for himself if he is able to get here today.

STATEMENT OF HON. BILL RICHARDSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW MEXICO

Mr. **Richardson**. I know you are sending a signal to be brief, Mr. Chairman, and I will do so.

Chairman **Gibbons**. Everybody's statement will be included without objection in the record as if it is delivered in full.

Mr. **Richardson**. Thank you.

Eight years ago when I had a bill on production zoning, many on both sides of the border not only disagreed, but they laughed at that concept. Now this is something near reality. I recall developing this proposal with Ambassador Valdez.

My colleague, Jim Kolbe has had a similar idea. We feel very good that we are at a very positive process.

Mr. Chairman, there are three reasons why the free-trade agreement is in the mutual interest of both countries. Before stating those, I think we have to give credit where credit is due: President George Bush and President Salinas. This is a major initiative that I think is going to change the trading patterns around the world.

Three reasons, Mr. Chairman. First of all, I think it is enunciated in the joint statement that the two Presidents made. A free-trade agreement can be a powerful engine for economic development, creating new jobs and opening new markets.

The first reason, again, Mr. Chairman, Mexico has already taken very important steps towards liberalizing its trade policy. We have taken advantage of this opportunity. Now Mexico is our third largest trading partner, $52 billion in two-way trade.

Second, and perhaps the most important reason, the world is moving into trading blocs. The wars in the future are not going to be military. They are not going to be brush fires. I predict the conflicts and tensions will come over economic issues.

Europe is moving in the direction of unifying by 1992. Japan is a major trading bloc that will be an active actor on the world scene.

I think for us to be able to compete, Mr. Chairman, we have to link up in our own hemisphere. The United States-Mexico free-trade agreement is a move in this direction.

Along with Canada, I think it is going to be a very powerful bloc. For the future, I think we should also look at eventually a North American free-trade market simply as a matter of survival, of wanting to compete with these blocs that are getting stronger and more powerful.

The third reason, Mr. Chairman, and perhaps this is why I have pursued this issue for many years, our border regions on both sides of the border need dramatic help on pollution, air quality, economic development, jobs. A free-trade agreement is going to be a great boost to border regions on both sides of the border.

Some of the arguments that have been raised against the free-trade agreement, the first one is going to be that, by opening commerce and products moving duty free, you are going to open up immigration to people. That is not the case. I think what this agreement will do is it will create jobs. That will prevent people on the Mexican side of the border from coming into the United States.

To have more economic development at the border, you need more jobs. There is less reason for them to come to this country. I will put up my labor record along with any of my colleagues here on both sides of the aisle, and I will firmly state I don't think this agreement is going to cost U.S. jobs.

Mr. Chairman, you have been enormously helpful in this initiative. I think what we must pursue now is negotiations. Some are going to say the United States is going to dominate these proceedings. There will be negotiations that will determine what products are on the table and are off the table.

I think Ambassador Hills and others here are very capable not just in protecting our interest, but recognizing that Mexico will have some arenas they may want off the table. I think we should respect that. I think the pace of the negotiations is a good one.

I would hope the Congress does support this initiative. It is critically important, it is futuristic, it will create jobs. It will remove those negative images we have with Mexico on other issues like narcotics. Let's focus on the positive side of our relationship.

Thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF CONGRESSMAN BILL RICHARDSON
WAYS AND MEANS SUBCOMMITTEE ON TRADE
HEARING ON THE U.S./MEXICO ECONOMIC RELATIONSHIP

JUNE 14, 1990

MR. CHAIRMAN,

I APPRECIATE THE OPPORTUNITY TO TESTIFY TODAY AT THIS IMPORTANT HEARING ON U.S.-MEXICO ECONOMIC RELATIONS BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS. I WOULD LIKE TO COMMEND THE SUBCOMMITTEE FOR HOLDING THIS HEARING AT A TIME WHEN THIS ISSUE IS AT THE FOREFRONT OF OUR ECONOMIC POLICY MAKING PROCESS.

MANY PEOPLE ANXIOUSLY AWAITED THIS WEEK'S SUMMIT MEETING BETWEEN PRESIDENT BUSH AND MEXICAN PRESIDENT CARLOS SALINAS DE GORTARI, IN WHICH THE TWO ESTABLISHED THE GROUNDWORK FOR FORMAL NEGOTIATIONS TO ERASE TRADE BARRIERS BETWEEN THE UNITED STATES AND MEXICO. SPECIFICALLY, BOTH PRESIDENTS COMMITTED THEMSELVES TO INCREASING THE BILATERAL MOVEMENT OF GOODS, SERVICES, AND CAPITAL BETWEEN THE TWO COUNTRIES.

THE BUSH/SALINAS JOINT STATEMENT THAT "FREE TRADE BETWEEN MEXICO AND THE UNITED STATES CAN BE A POWERFUL ENGINE FOR ECONOMIC DEVELOPMENT, CREATING NEW JOBS AND OPENING NEW MARKETS" SHOWS THE OPTIMISM THAT EXISTS FOR SUBSTANTIALLY INCREASED ECONOMIC ACTIVITY BETWEEN THE TWO COUNTRIES. WHILE THIS COMMITMENT HAS ALREADY PROVEN TO BE CONTROVERSIAL WITH SOME, BOTH PRESIDENT BUSH AND PRESIDENT SALINAS SHOULD BE COMMENDED FOR THEIR EFFORTS.

THIS MEETING COULD NOT HAVE COME AT A MORE FORTUITOUS TIME; THE UNITED STATES IS NOW REALIZING THE POSITIVE IMPACT OF OUR FREE TRADE AGREEMENT WITH CANADA, AND PRESIDENT SALINAS, WITH THE OVERWHELMING ENDORSEMENT OF THE MEXICAN SENATE, HAS BEEN DILIGENTLY PREPARING MEXICO TO ENTER INTO A FREE TRADE AGREEMENT WITH THE UNITED STATES.

MR. CHAIRMAN, I AM PLEASED THAT WE HAVE MADE THIS IMPORTANT STEP FORWARD WITH MEXICO. I HAVE LONG BEEN INVOLVED IN THE ISSUE OF U.S./MEXICO TRADE, BOTH LEGISLATIVELY AND THROUGH EXTENSIVE DIALOGUE WITH INTERESTED PARTIES ON BOTH SIDES OF THE BORDER.

SINCE 1985, WHEN CONGRESS PASSED THE IMMIGRATION REFORM AND CONTROL ACT, I HAVE INTRODUCED LEGISLATION AIMED AT LIBERALIZING OUR TRADE RELATIONSHIP WITH MEXICO. WHILE IT WAS VERY IMPORTANT FOR CONGRESS TO ADDRESS OUR MOUNTING IMMIGRATION PROBLEM, I FELT WE WERE FOCUSING TOO MUCH ON THE EFFECTS OF THE PROBLEM, INSTEAD OF THE CAUSE, WHICH WAS AND IS ROOTED IN ECONOMICS. I STILL BELIEVE THAT A SIGNIFICANT INCREASE IN ECONOMIC OPPORTUNITIES IN MEXICO WOULD LESSEN THE INCENTIVE TO EMIGRATE TO THE U.S. ACCORDINGLY, IN AUGUST 1985, I INTRODUCED H.R. 3199, TO ESTABLISH A U.S.-MEXICO FREE TRADE AND COPRODUCTION ZONE, A U.S.-MEXICO BILATERAL COMMISSION, A MULTILATERAL COMMISSION ON IMMIGRATION, AND A U.S.-MEXICO JOINT DEVELOPMENT BANK. THIS LEGISLATION OFFERED A UNIQUE ECONOMIC APPROACH (COPRODUCTION) TO SOLVING OUR IMMIGRATION PROBLEMS, AND HAD THE POTENTIAL TO PROVIDE A MUCH NEEDED ECONOMIC BOOST TO A DEPRESSED BORDER REGION.

COPRODUCTION ENTAILS A JOINT EFFORT, BY A U.S. AND MEXICAN BUSINESS, TO PRODUCE GOODS USING COMBINATIONS OF RAW MATERIALS, PRODUCTION EQUIPMENT, AND LABOR FROM BOTH SIDES. BY PROVIDING TAX AND TARIFF CONCESSIONS ON THE PRODUCTS MADE THROUGH SUCH A VENTURE, BOTH THE U.S. AND MEXICO WOULD BENEFIT FROM INCREASED

ECONOMIC ACTIVITY. THE FREE TRADE ZONE WAS GEOGRAPHICALLY DESIGNATED AT 200 MILES ON BOTH SIDES OF THE BORDER, AN AREA IN WHICH GOODS AND SERVICES COULD CROSS THE BORDER TARIFF FREE.

THE RESPONSE TO THIS LEGISLATION WAS LUKEWARM AT BEST. HOWEVER, I CONTINUED TO BELIEVE THAT A MORE LIBERALIZED TRADE RELATIONSHIP WITH MEXICO, THROUGH FREE TRADE AND COPRODUCTION, WOULD BE MUTUALLY BENEFICIAL.

I CONTINUED TO SUPPORT THIS IDEA IN THE 100TH CONGRESS BY INTRODUCING H.R. 1006 IN FEBRUARY, 1987. H.R. 1006, THE REVITALIZATION OF TRADE BETWEEN THE U.S. AND MEXICO THROUGH THE ESTABLISHMENT OF A U.S.-MEXICO FREE TRADE AND COPRODUCTION ZONE, WAS DESIGNED TO INCREASE EMPLOYMENT, SUPPORT ECONOMIC DEVELOPMENT, IMPROVE COMPETITIVENESS, AND INCREASE THE EXPORT PERFORMANCE OF THE U.S. AGAIN, THERE WAS LITTE SUPPORT ON EITHER SIDE OF THE BORDER.

HISTORICALLY, MEXICO'S ECONOMIC POLICIES HAVE BEEN HIGHLY INTERVENTIONIST AND PROTECTIONIST. MEXICO HAD A POLICY OF INDUSTRIALIZATION THROUGH IMPORT SUBSTITUTION, AND IMPOSED FORMIDABLE TARIFF AND NON-TARIFF BARRIERS ON IMPORTS AND SUBSIDIZED MANUFACTURING INDUSTRIES. THE GOVERNMENT RESTRICTED DIRECT FOREIGN INVESTMENT, AND OVER-REGULATED MOST BUSINESSES. SUCH POLICIES WERE ACCEPTABLE WHEN MEXICO'S OIL INDUSTRY WAS BOOMING, BUT IT'S IMMINENT COLLAPSE LED TO MASSIVE DEBT, STIFLING ANY PROGRESSIVE CHANGES IN TRADE POLICY.

IN THE 101ST CONGRESS, I REALIZED THE NEED TO EXPAND THE COPRODUCTION CONCEPT TO INCLUDE THE ENTIRE CONTINENTAL UNITED STATES AND MEXICO, AND ELIMINATED THE GEOGRAPHIC LIMIT ON FREE TRADE IN A NEW BILL, H.R. 1360. I INTRODUCED THIS BILL IN MARCH 1989, FOUR MONTHS PRIOR TO THE DRAMATIC RESTRUCTURING OF MEXICO'S DEBT UNDER THE BRADY PLAN. WITH MEXICO'S MAJOR CREDITORS AGREEING TO A REDUCTION IN INTEREST RATES, AS WELL AS PROVIDING NEW LOANS OF SEVERAL BILLION DOLLARS, IT WAS APPARENT THAT MEXICO'S ECONOMY WAS BEGINNING TO STABILIZE. AT THAT TIME, INTEREST IN MY COPRODUCTION LEGISLATION HAD INCREASED DRAMATICALLY, BOTH IN CONGRESS AND THE PRIVATE SECTOR.

WITH THE ADVENT OF NEW ADMINISTRATIONS IN THE U.S. AND MEXICO CAME HOPE THAT SUBSTANTIVE TRADE LIBERALIZATION WOULD BECOME A REALITY. PRESIDENT BUSH ANNOUNCED SUPPORT FOR A UNIFIED NORTH AMERICAN MARKET, AND PRESIDENT SALINAS, WHILE NOT ADVOCATING FREE TRADE INITIALLY, AGREED THAT TRADE LIBERALIZATION MEASURES WERE NEEDED.

WHILE THE FORM OF MY LEGISLATION CHANGED OVER THE YEARS IN RELATION TO THE CHANGES IN THE POLITICAL AND ECONOMIC CLIMATES IN BOTH COUNTRIES, I HAVE ALWAYS MAINTAINED THE BASIC PREMISE THAT OUR ULTIMATE GOAL SHOULD BE A FREE TRADE AGREEMENT. THIS HAS NOT ALWAYS BEEN A POPULAR STANCE TO TAKE, AND MANY OF OUR COLLEAGUES LAUGHED AT THE SLIGHTEST SUGGESTION THAT WE ENTER INTO SUCH AN AGREEMENT WITH MEXICO. NOW THAT THE ISSUE IS AT HAND, MANY OF THESE PAST DOUBTERS ARE SERIOUSLY RE-EXAMINING THE VIABILITY AND POTENTIAL BENEFIT OF SUCH AN AGREEMENT TO THE U.S.

THE MEXICAN GOVERNMENT HAS RECENTLY IMPLEMENTED MANY NEW AND SIGNIFICANT ECONOMIC POLICIES WHICH HAVE MODERNIZED AND OPENED ITS ECONOMY. BECAUSE OF THIS, THE U.S. NOW ENJOYS GREATER ACCESS TO MEXICO'S BURGEONING MARKET FOR EXPORTS AND INVESTMENT. IN 1989, TWO WAY TRADE BETWEEN THE U.S. AND MEXICO EXCEEDED $51 BILLION DOLLARS, MAKING MEXICO OUR THIRD LARGEST TRADING PARTNER. THAT YEAR ALONE U.S. EXPORTS TO MEXICO INCREASED BY 20% TO OVER $24 BILLION, AND INVESTMENT INCREASED TO $12 BILLION.

THESE CHANGES ARE CONGRUOUS WITH THE EMERGING TREND IN THE WORLD MARKETPLACE. AS WORLD MARKETS MOVE TOWARD REGIONAL TRADING BLOCS, INCLUDING EUROPE (EC 92) AND ASIA, IT IS IMPERATIVE THAT WE BUILD AND MAINTAIN A STRONG AND COMPETITIVE NORTH AMERICAN MARKET.

THE EUROPEAN COMMUNITY HOPES TO BOLSTER ITS ECONOMIC POSITION THROUGH THE CREATION OF A COMMON MARKET BY 1992. THIS PROGRAM IS A POLITICAL INITIATIVE BACKED BY SOUND ECONOMIC REASONING; THE ULTIMATE GOAL BEING COMPLETE UNIFICATION OF A HUGE MARKET WITH 320 MILLION CONSUMERS IN WHICH GOODS, SERVICES, AND CAPITAL ARE FREE TO MOVE ACROSS NATIONAL BORDERS. TRADE EXPERTS ESTIMATE THIS SINGLE MARKET WILL BRING AN INCREASE IN THE EUROPEAN COMMUNITY'S GROSS DOMESTIC PRODUCT, TWO MILLION NEW JOBS, AND A SUBSTANTIAL DECREASE IN CONSUMER PRICES. ASIA IS GOING IN MUCH THE SAME DIRECTION, WITH THE PACIFIC RIM COUNTRIES, INCLUDING JAPAN, STIMULATING THEIR REGIONAL ECONOMY BY REDUCING BARRIERS TO TRADE.

IF WE ARE TO AVOID BEING "FROZEN OUT" OF THE WORLD MARKET IT IS IMPERATIVE THAT WE LOOK TO THE FUTURE WITH THE SAME STRATEGY. CANADA AND THE U.S. MADE THE CRUCIAL FIRST MOVE IN REGIONAL ECONOMIC BLOC BUILDING BY SIGNING A FREE TRADE AGREEMENT. WHILE MANY PEOPLE WERE ORIGINALLY SKEPTICAL ABOUT THE POTENTIAL BENEFITS OF THIS AGREEMENT TO THE UNITED STATES, IT HAS PROVEN TO BE AN ECONOMICALLY SOUND DECISION. BOTH NATIONS ANTICIPATE A NORTH AMERICAN ECONOMIC POWERHOUSE THAT WILL BESTOW MIGHTY LEVERAGE IN MULTILATERAL TRADE TALKS. MEXICO'S ADDITION TO THE BLOC WILL INCREASE THIS LEVERAGE.

MR. CHAIRMAN, IT IS ALSO IMPORTANT TO LOOK AT THE POTENTIAL EFFECT OF A FREE TRADE AGREEMENT ON THE U.S. BORDER STATES. THE U.S. AND MEXICO CURRENTLY FACE A MYRIAD OF PROBLEMS ALONG THE BORDER REGION, WHICH STRETCHES MORE THAN 2000 MILES OVER FOUR STATES. THESE PROBLEMS INCLUDE HIGH UNEMPLOYMENT, SUBSTANDARD LIVING AND HEALTH CONDITIONS, DRUG TRAFFICKING, AND A CONTINUED INFLUX OF ILLEGAL IMMIGRATION. IN APPROACHING THESE PROBLEMS THOUGHTFULLY AND EFFECTIVELY, WE MUST RECOGNIZE THAT THEY ARE, FUNDAMENTALLY, BROUGHT ON BY A LACK OF ECONOMIC OPPORTUNITY. THE SOLUTION, THEREFORE, MUST ENTAIL THE STIMULATION OF THE REGION'S ECONOMY.

A FREE TRADE AGREEMENT BETWEEN THE U.S. AND MEXICO WILL BE THE MUCH NEEDED "SHOT IN THE ARM" FOR THE BORDER REGION. AS THE FLOW OF GOODS, SERVICES, AND CAPITAL INCREASES IN THE BORDER REGION, SO WILL JOB OPPORTUNITIES AND ECONOMIC DEVELOPMENT. MANY LEADERS FROM NEW MEXICO, TEXAS, ARIZONA, AND CALIFORNIA HAVE INDICATED A STRONG DESIRE FOR THE U.S. TO MOVE FORWARD WITH A FREE TRADE AGREEMENT. ACCORDINGLY, I RECENTLY INTRODUCED H.R. 5000, A BILL THAT URGES PRESIDENT BUSH TO MOVE FORWARD WITH A FREE TRADE AGREEMENT WITH MEXICO.

MR. CHAIRMAN, AS ONE WHO HAS ACTIVELY PARTICIPATED IN THE EVOLUTION OF OUR TRADE RELATIONSHIP WITH MEXICO, AND AS A LONGTIME SUPPORTER OF A FREE TRADE AGREEMENT, I AM PLEASED WITH THE COURSE OUR RECENT NEGOTIATIONS HAVE TAKEN. I STRONGLY BELIEVE IT IS IN THE MUTUAL INTEREST OF BOTH THE UNITED STATES AND MEXICO TO LOOK TOWARD THE FUTURE AND BEGIN FREE TRADE.

Chairman GIBBONS. Thank you. Again, let me commend you. Let's go to Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you very much, Mr. Chairman.

I want to commend you for holding this hearing. I think it is a very timely one, and I congratulate you on doing so.

I want to also pay special tribute to my friend, Congressman Don Pease, who serves with me as the cochairman of the Task Force on Mexico for the Caucus.

I will also introduce my full statement in the record and just summarize briefly.

The reason I think it is so important to be holding this hearing now is, of course, the stirring call that President Salinas gave to Washington, to us at the Business Roundtable dinner this past Monday, where he urged us to begin consultations for negotiations on the free-trade agreement between the United States and Mexico.

We are about to embark on a very extraordinary era in the trade relationship between our two countries and, as has been suggested here, in the North American community as a whole.

For the past 4 years, I have introduced a resolution in Congress expressing the sense of Congress that such a free-trade agreement should be negotiated. This year with my colleagues in the Senate, Senator Gramm and Senator Domenici, I have introduced on this side, H.R. 4680, which sets forth the framework for the negotiation of the free-trade agreement between the United States and Mexico. That bill has been referred to your subcommittee.

I think the most important thing, as you begin to look at this, is to try to strip away from the past all of the prejudices that we have and the views that we have about Mexico that have locked us into an old view of that country.

We are all very aware of the changes taking place in Eastern Europe, but we don't focus on the fact that the economic and political changes taking place in Mexico have even been more, or as dramatic, as those taking place in Eastern Europe. This has laid the groundwork to make the possibility of a free-trade agreement between our two countries more possible than ever.

Mexico has done more in the last 5 years to modernize and open its economy than has been done in at least the last half-century. Now it is our turn to respond, to capitalize on these changes for the benefits of both our countries.

We ought to seize this opportunity to link the markets of Mexico and the United States and eventually provide for the free flow of goods throughout the North American continent, as has been suggested by several people here today.

By uniting our economies, we will create not only the largest, but the most efficient and the most productive economy in the world.

Now, this discussion of a free-trade agreement is not just about what is good for Mexico, but what is good for the United States, obviously. That has to be the focus of what we are looking at.

As Europe and Asia continue to march towards economic integration, we have to look at our own opportunities to remain competitive and stay competitive in a global economy. A United States-Mexico free-trade agreement will facilitate increased trade and investment that is needed to secure the long-term economic growth so vital to both of our economic interests.

Arguments for a United States-Mexico free-trade agreement are compelling. It is now politically possible for the first time to do it. It holds mutual benefits.

Third, events around the world make it ideal for us to begin this process now and, as Congressman Schulze suggested, it ought to become the cornerstone of a comprehensive hemispheric trade policy.

What are the benefits in this to Mexico?

Well, first, it puts it on the irreversible path of development. It institutionalizes the reforms down there. It gives them access to U.S. technology and management, access to a huge U.S. market. It would protect Mexico from the abrupt economic shifts that occur in the United States, and allow for more efficient economic planning. It cements Mexico's position in the North American economy and gives Mexico more clout vis-a-vis other countries in the world.

What are the benefits for the United States?

I would suggest, Mr. Chairman, those benefits are just as dramatic. It gives us access to a very large and growing Mexican market.

Mexico will be close to 100 million people by the end of this decade. This will provide increased opportunities for our goods in that growing market, increased investment opportunities, increased access to energy resources, increased political and social stability on the border immediately to the south of us, and enhanced competitiveness in a global market.

I would suggest to those, and Mr. Guarini asked the question, how do we answer those who say we will lose 400,000 jobs? I would answer them by saying, first of all, I don't believe that will be the case. This is not a zero-sum game. Trade benefits everybody.

Second, if we don't do this, we will lose 400,000 jobs. If we do do this, maybe we would lose 100,000 because the 400,000 would go to Thailand, Singapore, and countries far away from our shores where we don't maintain the link of the two economies.

The timing is right. Changes in Mexico do make this desirable. I realize our desire to finish the Uruguay round first. We hope to have that out of the way by September.

I would urge us to continue this because of the 60-day time, 60 legislative days, we should do it at the beginning of the next Congress. Multilateral talks should be concluded by then, or will be very shortly after that, and ought not bar us from holding these discussions.

They are certainly not contradictory with the Uruguay round of discussions.

And finally, in all of this, I think the greatest challenge that you have, that we all have, is a lack of knowledge, a lack of interest, a lack of involvement among policymakers that has characterized the United States-Mexico relationship. Although Mexico represents one of the greatest economic and strategic interests to the United States, and despite the dramatic revolutionary changes that have taken place down there, Mexico hardly registers on the interest barometer in Congress and in the media and the public at large.

That is why I am so pleased, Mr. Chairman, that you are holding this hearing today. I hope this hearing will begin to change that.

What is at stake for this nation is the future of our third largest trading partner, the very security of our borders, and of our hemisphere.

This agreement won't come easily or quickly. Negotiations will be tough. Ambassador Hills certainly has a tough road ahead of her.

Still, the advantages of a FTA far outweigh any of the difficulties it may present and that ought to be the guiding light as we go into this.

In the end, both of our countries do benefit. The goal of the United States and Mexico free-trade agreement serves the long-term competitive needs of both of our countries.

Thank you, Mr. Chairman.

[The statement of Mr. Kolbe follows:]

Statement of
Rep. Jim Kolbe

Before the Subcommittee on Trade
House Committee on Ways and Means

Hearing on U.S.-Mexico Trade and Economic Relations
Thursday, June 14, 1990

Monday night, at the annual dinner of the Business Roundtable, Mexico's President Carlos Salinas de Gortari delivered a stirring call to Washington, and to the United States to begin consultation for the negotiation of a Free Trade Agreement between the United States and Mexico. This is a proposal I enthusiastically embrace. For the past four years I have sponsored a sense of the Congress Resolution calling for the negotiation of a U.S.-Mexico Free Trade Agreement. More recently, I joined with my colleagues and friends from the other body, Senators Gramm and Domenici in introducing legislation -- H.R. 4680 -- to authorize the negotiation of a Mexico-U.S. FTA. This bill has been referred to this Subcommittee and I hope this morning to relay to you why I have supported this proposal and why I believe this is now both possible and probable, as well as beneficial to both the United States and Mexico.

Since coming to Congress five years ago, I have taken an active role in U.S.-Mexico relations, particularly as they relate to trade and economic issues. When I first became involved in these issues several years ago, there were many black clouds hanging over our relations, including questions of illegal immigration, drug trafficking and corruption, charges that maquiladoras were "stealing U.S. jobs" and exploiting workers, and continued economic obstacles facing Mexico. While not all of these problems have been resolved, it is certainly safe to say that this relationship has changed dramatically in just a few years.

Today, U.S.-Mexico relations, particularly in the economic and trade sectors, are stronger than ever. Without taking the time to list all the dramatic changes and reforms, the conclusion is inescapable: Mexico has done more in the last five years to modernize and open its economy than the previous half century. From joining GATT to slashing structural trade barriers, Mexico has embraced a free market economy with a vengeance. Now it is our turn to respond -- not with half-hearted measures, but with real, substantive support.

I think what that response should be is clear: we should seize the opportunity presented to us this week to link the markets of Mexico and the U.S., and eventually provide for the free flow of goods through the entire North American continent. With questions of our competitiveness central to so many of our trade and economic debates, we should not hesitate or waffle on this issue. Mexico has demonstrated its boldness in attacking difficult reforms head-on. Now it is our turn to demonstrate a willingness to "do the right thing."

In his address to the Business Roundtable, President Salinas argued that by uniting our economies we will create not only the largest, but the most efficient and productive economy in the world. I happen to agree with him. This discussion is not about what is good for Mexico, but what is good for the U.S. As Europe and Asia continue to march toward integration, we must look to our own opportunities to remain competitive in a global economy. It's hardly surprising that as Mexico and the United States have become more competitive with the rest of the world, our economies have become increasingly interlinked. The interdependence of our economies, success of the maquiladora program, and the implementation of a FTA between the U.S. and Canada, have led us to the brink of realizing an historic concept whose time has come, and which is within our grasp: the creation of a North American Free Trade Alliance where Mexico, Canada and the U.S. stand together as co-equal trading partners.

A U.S.-Mexico Free Trade Agreement will facilitate the increased trade and investment needed to secure the long-term economic growth so vital to both our national interests. Pursuing the goal won't be easy -- we cannot be "polyannas" when we examine the enormous economic differences between our two countries. But we should acknowledge that surely if Mexico can take on the issue as it has, we must also find the political leadership and courage needed to ensure the successful completion of negotiations linking our economies.

The arguments for a U.S.-Mexico FTA are compelling. First, it is now possible; second, it holds great mutual benefits for both countries; third, events around the world make the timing for such an agreement ideal; and finally, such an agreement is key to a comprehensive hemispheric policy.

With the reforms in Mexico in place, a free trade agreement with the U.S. is possible today. As I mentioned at the outset, Mexico has undertaken significant reforms of its economy in the last several years with the purpose of restructuring its economic system and refocusing its development strategy away from import substitution and reliance on oil. Underlying these reforms has been a recognition that the world has changed and that Mexico must also change. Mexico's leaders have correctly concluded that future economic growth for their people depends on their ability to diversify the economy, develop a more mature manufacturing sector and build a strong export base. In short, Mexico has decided that to prosper in a global economy, they must compete.

While Mexico has suffered greatly this past decade, structural adjustments make her future bright. The highly capable economic team President Salinas has assembled has set specific, high-aiming goals that should propel Mexico into the global arena in the next century.

Such an agreement holds enormous mutual benefits for the U.S. and Mexico.

While some industries will be hurt in the short run by such an agreement, the benefits to both nations will far outweigh any costs. I would go further; I would argue that even these perceived costs are not real because industry and labor will be forced to move into better, more competitive endeavors.

Entering into negotiations of a free trade agreement with the United States will put Mexico on an irreversible path of development. It will institutionalize the reforms that have been enacted. Many in Congress and in the business community will raise the question, "How can we be sure that the reforms Mexico has adopted are lasting?" Well, in this world there are no absolute assurances. But one of the best ways to insure that the reforms do last is by adopting policies to lock them in place. I maintain the completion of an FTA will accomplish this.

Mexico will also derive immediate benefits from an FTA. It will help attract the investment dollars Mexico so desperately needs. It will give Mexico access to superior U.S. technology and management practices and give it an open door to the U.S. market. It will protect Mexico from harmful economic policy shifts in the United States and allow more efficient economic planning. Finally, entering into a Free Trade Agreement with the United States will cement Mexico's position in the North American economy, and give Mexico more clout in the world and a more advantageous negotiating position vis-a-vis other countries like Japan and Europe.

To those who think this would be a one-way street, I would argue that the benefits to the U.S. will be just as dramatic. Most obvious would be access to the growing Mexican market and increasing opportunities for U.S. goods in a rapidly expanding consumer market. There will be increased investment opportunities for U.S. firms. In addition, we should not overlook the increased access we will have to energy resources. There is also an intangible, but significant benefit that flows from increased political and social stability.

Perhaps more significant, however, is the importance this will have to continued U.S. competitiveness in a global economy. A North American Trade Alliance of the U.S., Canada and Mexico will allow us to better compete with other emerging trading blocks in Europe and Asia, and maintain our competitiveness around the globe.

As a border state member, I anticipate you will be interested in knowing why the border particularly supports this proposal. Although I would argue a U.S.-Mexico FTA will effect and benefit all states, not just the border, clearly those of us who live along the border already are familiar with and comfortable with Mexico. For us, Mexico represents neighbors, friends, business partners and relatives with whom we share a multitude of common concerns. To build a structural or legal wall between our two nations would be like trying to wall off New York from Connecticut.

Mexico is Arizona's largest trading partner. Exports from Arizona to Mexico totalled over $711 million in 1988, the last year for which complete statistics are available. Aside from the dollar value, more Arizona firms trade with Mexico than with any other foreign country. Many of you may be aware that Arizona has suffered some tough economic times recently. In the past five years, there has been virtually no major manufacturing firm that has located in Tucson that was not also related to a Mexican maquiladora operation. Overall nearly 2,000 people are employed in manufacturing in Tucson as a direct result of maquiladora operations in Mexico. In addition, Arizona benefits greatly from Mexican visitors to our state. The University of Arizona estimates that Mexican visitors spent about $45 million in Pima county alone in 1984. That figure was down from about $90 million in 1980 prior to the economic downturn in Mexico. It is true that wages paid in Mexico along the border end up right back in the U.S. and represent and net gain for our economy.

Changes around the world make such an agreement desirable, and ideally timed. For the past four or five years, completion of multilateral talks under the GATT has been our primary trade objective. During this time, bilateral initiatives have taken a back seat. However, the Uruguay Round is nearly complete and we should once again look for the opportunities on a bilateral basis.

Let me go a step further on the issue of timing of this agreement, since this is a key question to this discussion. Although successful completion of the Uruguay Round remains a priority, and has been suggested as a near prerequisite to formal negotiations on a Mexico-U.S. agreement, I urge the administration, and the Congress, to commence negotiations in December when the Presidents meet again, whether the Uruguay Round is finished or not. I say this for several reasons.

First, I'm afraid that if we do not make continued progress, a real danger exists that we will lose ground.

Second, I do not agree multilateral talks should bar us from holding other discussions. We have applauded the efforts in Europe to bring that economy together, citing the unique situation of the relations of countries on that continent. This has all occurred against the backdrop of multilateral discussions. Clearly, the U.S. and Mexico enjoy an equally unique situation. And just as continued work to bring together Europe has not derailed the GATT round, neither would U.S.-Mexico negotiations. In fact, it is more likely the opposite will happen.

The reality is the rest of the world is both unwilling and unable to ignore the U.S. market. A trading block from the Yukon to the Yucatan, with upwards of 400 million in population, would be the most powerful in the world. With the U.S.-Canada agreement already in place, Mexico is the next logical step to a comprehensive North American trade and investment strategy.

In addition to timing concerns relating to the GATT, the United States and Mexico are fast approaching the time when a full free trade agreement is the only option remaining for further progress between our countries. By the time the GATT round of multilateral negotiations is concluded, it is probable we will have reached as many bilateral concessions with Mexico as possible that are GATT consistent. At this point we must take the necessary steps to protect our mutual interest in ensuring that negotiations in sectors that would provide the greatest benefit to both our countries not be extended to other countries that have not offered similar concessions in their markets. We are nearly to the point where only a full, comprehensive agreement will be left to negotiate. If we are not prepared to go forward from this point, we almost certainly will go backwards.

Finally, we cannot overlook the broader policy implications of our relationship with Mexico. Mexico is important as the cornerstone of a comprehensive, hemispheric policy. Too often, and for too long, we have regarded Mexico as a separate entity from Central and Latin America. This is no longer the case, and we must give recognition to the growing importance of this region to our future.

President Salinas has shown himself to be a leader who can speak not only for his own nation, but for the entire region. For the first time in history, all South American countries have governments that were elected democratically. Many of these fragile democracies are implementing their own economic reforms as Mexico has done. What this region needs is an example of success with a market-oriented economy. Just as Mexico is the physical bridge between North and South America, Mexico can serve as the policy bridge from the U.S. to all of Latin America.

Considering all of this, and the events of this week, it is an understatement to say we have our work cut out for us. In meetings during President Salinas' visit, President Bush and Salinas not only endorsed the concept of a Free Trade Agreement, but they set a timetable for future considerations of the proposal -- one that leaves the door open to beginning formal negotiations as early as December. While I wish we could see this on a faster track, I recognize the reality of a law that requires at least 60 legislative days for Congress to dissent -- and we may not have 60 days left in this session.

So much has changed on the subject of U.S.-Mexico relations. I wager that 90% of the members of Congress maintain a view of Mexico that is 10 years out of date. With the rapid changes taking place, we are going to have to go on a crash course just to get up to speed on the implications for U.S. policy.

I had CRS conduct a quick survey on how many hearings were held in the 100th and 101st Congress relating to Mexico and on other key countries to compare the levels of attention given this important ally. CRS identified 18 hearings held in the 100th and 101st Congresses that were related to Mexico. You can guess what these were about: maybe one or two relating economic and trade concerns, the rest with immigration and narcotics issues. In contrast, Congress held 38 hearings on Canada, 44 hearings on Japan, and 21 hearings on Europe during that period. Most likely these focused almost entirely on trade and economic concerns with these countries.

I have worked to bridge the gap of information on Mexico, but I still believe that one of the greatest remaining challenges facing U.S.-Mexico relations is the level of knowledge, interest, and involvement among policy-makers here in Congress. Although Mexico represents one of the greatest economic and strategic interests to the U.S., and despite the revolutionary changes that have been taking place there in recent years, Mexico hardly registers on the interest barometer of Congress. Few of us have had the time or inclination to develop a knowledge of Mexico, the challenges facing our relations, or the great changes that have taken place in the last few years. I am hopeful this hearing, and the second hearing scheduled for two weeks will go along way toward addressing this deficiency.

Four years ago, before the Senate Foreign Relations Subcommittee, I said that in our relationship with Mexico, "What's at stake for the nation is the future of our third largest trading partner and the very security of our borders and of our hemisphere." Those words carry as much truth today as they did then. A U.S.-Mexico Free Trade Agreement will not come easily nor quickly. Negotiations will be difficult. And of course, there will be some on both sides of the border who will suffer as they lose their cloak of protection. But this is not an argument against free trade; it just makes a case for domestic policies to help ease economic adjustments.

For all the reasons I've discussed, the advantages of a free trade agreement between our countries far outweighs any difficulties it may present. Mexico has indicated its desire to proceed along these lines; now it is our turn to act. Together our two countries will be able to overcome the obstacles and reach an agreement to our mutual benefit.

The continued development of U.S.-Mexico relations rests on the recognition of the successful negotiation of a free trade agreement as the primary goal of a coordinated trade policy. It seems clear that Mexico can not make the transition to a modern economy without a close bilateral relationship with the U.S.; but it is also increasingly clear that many of our own prospects for continued competitiveness are to be found with this important partner. The goal of a U.S.-Mexico Free Trade Agreement serves the long-term competitive needs of both our countries. I hope you will join me in making this a reality.

Chairman **Gibbons**. I thank the both of you for very fine statements, and invite you to come join us here at this panel, if you would like to, when you are concluded and stay as long as you wish.

I would also say we have got a lot of work to do and I know it will be tough. I thought if we tackle it fast, we don't need to take as long as we did on the Canadian agreement.

I really think that we probably dragged that debate out far too long, because it was the first time we had ever tackled that kind of problem. We now have experience with the Israel agreement, with the Canadian agreement, and I think we have much more experience as negotiators.

I hope we can move with deliberate speed, but not with foot-dragging speed. I want to make sure that everyone gets heard in this discussion, and as part of that sacrifice, I will miss lunch today and I hope the witnesses will miss lunch with me, so that we can proceed. We have had so many requests to appear for this hearing, that we have had to extend it to June 28, to pick up some others.

I imagine that by the time June 28 gets here, we will have a lot of other people. But we want to hear everybody express their opinion. You don't hear much dissent today. I am sure you will in the future in this set of hearings.

I don't have any questions. We all expect to continue discussing this with you over a long period of time.

Mr. Pease.

Mr. Pease. Thank you very much, Mr. Chairman.

I would like to welcome both of our colleagues to the witness stand, and in particular, Jim Kolbe, who is cochairman with me of the competitiveness caucus task force on Mexico.

We did have a very fine trip with, I think, seven or eight members down to Mexico in August to see firsthand the changes that are occurring there.

I must say, they are very, very impressive. We were almost bowled over by the competence and intelligence of all of the government officials with whom we talked when we were down there.

Gentlemen, you are Representatives to Congress, so am I. From your point of view, as border State Representatives, you would have a particular interest in Mexico.

I am a little farther away from the Mexican border than you are, and my constituency is somewhat different. We are in the heart of what is known as the Rust Belt, the industrial heartland of America, which has been losing jobs at a very rapid clip over a number of years.

We have gained a number of jobs, as well. But the kind of jobs that we have gained pay far less than the jobs that we are losing. In particular, the jobs that we are gaining that pay a reasonable salary are those available to those with a fairly high degree of education who can take high tech positions.

I am concerned about blue-collar workers in my district who have been working in factories and steel plants and auto plants and auto parts plants for the last 50 years and have been making very good wages, been able to buy homes, sent their kids to college, and all the rest.

And when I look at the wage disparity between Mexico and the United States, it seems to me that with the free-trade arrangement, some leveling is inevitable. And in that case, Mexico will level up and the United States will level down.

I share with you the belief that on a macroeconomic level, there will be increased economic growth on both sides, and that is good for both of our countries. It seems to me that it is almost inevitable that a very important segment of our society, that is, the relatively well-paid industrial worker, is almost bound to suffer.

You don't have the industry in either of your States that I have. Your States are certainly not, couldn't be characterized as Rust Belt States.

And, as I mentioned before, you do have this increased interest because of your status as border States. If I could, I would like to ask you to try to put yourselves in my shoes as a Representative of northern Ohio, industrial Ohio, and tell me why a person in that part of the country should be supporting the idea of a free-trade arrangement with Mexico?

Mr. RICHARDSON. Mr. Pease, two reasons. First of all, when you have free-trade, tariff products move duty free. I am convinced that some of the products in your area, steel, autos, many others, I think the increased trade between the two countries will benefit your area very simply because I think it will create more jobs.

Second, in my view, what you also might negotiate is what are called coproduction zones to set up entities, joint ventures on both sides of the border on a fairly competitive basis.

In other words, possibly maquila's style arrangements on both sides of the border, that would enable, similar to an American and Japanese enterprise, to deal with some of the prevailing wage issues and other concerns that you have brought forth.

There are some areas that need to be negotiated that perhaps should not be in the table that would give you protection for your kind of jobs. I think that we will have some, too. It is a matter to be negotiated.

But I am convinced—and, again, I will proudly tell you of my labor record. I think it is almost as good as your—that I am convinced that this will not lose jobs. I have had some job losses in your type of industry in my State, too.

But I think just simply availability of capital and markets and new jobs and new industries is going to override any temporary dislocation.

Mr. PEASE. Thank you.

Mr. KOLBE. If I could just add to that—and I think my good friend, Bill Richardson stated it very well. To use one of the phrases I used in my remarks, I don't think trade is a zero-sum game. To throw in another cliche, the rising tide lifts all boats.

You suggested that yourself that in the macro sense we both benefit from freer trade. But it seems to me, to answer you more specifically, that the problem that you have suggested here is not really the problem of a free-trade agreement or more expansive trade between the United States and Mexico.

The problem that I think you have suggested is one occurring from a change that is taking place in this country and many other countries around the world as we move towards a different kind of a society and as we shift from basic manufacturing to other kinds of technological manufacturing, that you do have a need for greater training, for retraining, for different kinds of skills that are involved in work, whereas a free-trade agreement does not in any way affect that.

A free-trade agreement allows us to more readily adapt to that. So I believe in the long run we will all be better off as a result of this.

I would again point out that the argument that I gave before, and that is that if you don't do this, you will lose the jobs, the jobs will go where the goods can be produced most effectively and at the least cost.

If we don't have this kind of an agreement, these kinds of jobs are likely to disappear to Asia, to the growing areas we haven't even thought about: Indonesia and areas of Africa where there will be an increased amount of manufacturing at low cost.

This allows us to capitalize on what the two countries can do best together and will save those jobs here and protect most of those jobs.

Mr. **Pease**. I appreciate the answers that both of you have given. I would just like to underscore my concern.

Bill, more jobs, as I mentioned earlier, have been created in my area. We have lost in my own home county 6,000 steel jobs in the last 10 years. We have lost a number of auto jobs as well.

We are creating new jobs, but they are new jobs at video stores and retail outlets, places like that tend to pay close to the minimum wage.

So my constituents still work, but they cannot get by on one salary. Now, both members of the family have to work, regardless of whether or not they want to.

And even at that, they cannot buy homes in our county. The home building industry is depressed simply because people can't afford to buy the homes. So that the dream that I have seen of a growing or prosperous America over the last 40 years, where ordinary high school graduates, no particular education or super intelligence, could go to work and get a really decent wage, could afford to become homeowners and afford to send the kids off to college. That is not occurring as much as it did before. That is what concerns me.

And Jim, I want you to know that I am familiar with the argument that we are in a global marketplace and if we don't hook up with Mexico, some of this production will go to the Far East instead. That is probably correct.

But industries, I know this is a fact, make calculations. They put their C.P.A.'s to work on how much it will cost to produce in one place in Ohio and another place, Taiwan, and another place, Mexico, and they say to their workers, you know, according to our calculations, we can continue producing in Ohio. All you have to do is forgo wage increases for the next 3 years and we can afford to do that.

Now, if you don't want to do that, we will be reluctantly required to go overseas. And what you are setting up, it seems to me, is a competition between Ohio or other States, and the possibility of producing in Taiwan or in Mexico.

What a free-trade agreement would do would be to tilt the equation in favor of Mexico. The result is that that little equation which the C.P.A.'s use when they look at the bottom line would tend to tilt more in favor of producing elsewhere than it would be in Ohio because of the tariff-free aspect of the transaction.

So I understand what you are saying from a macroeconomic basis. This would make some sense. But there are some very real problems for society, and particularly for society in my area, from making this shift.

I would ask you one more question.

OK. Well, I will ask Mrs. Hills the question then. I am not doing her a favor. This was a real zinger. I want you to know that.

Chairman GIBBONS. Go ahead. We are really running short.

Mr. PEASE. I understand that, Mr. Chairman, and I don't like to hold up Ambassador Hills at all. But as is clear from my cochairmanship of this task force on Mexico, I think that our relations with Mexico are very important and I salute everything that is going on in Mexico.

But this is, I think, a really important step for our country, one fraught with more potential perils than was the case with our arrangement with Canada, at roughly comparable wage levels.

So I do want to take time to look through this.

Let me ask you, Bill, you were talking about trading blocs and the obvious advantages to the United States of hooking up with Mexico compared to what is going on in Europe and the Far East. Considering the advantages which you see to the United States, a highly industrialized country, reaching a free-trade agreement with Mexico, a developing country with low wages, would you expect to see Japan notice the same advantages and have Japan work out a free-trade arrangement with Indonesia and Bangladesh or one of those countries?

Mr. RICHARDSON. I foresee Japan doing that. This is precisely the reason why I think in our hemisphere we should organize ourselves as a trading bloc. I think you are going to see in 1992 or the year 2000, Europe having currency that is equivalent.

I think you will see products moving duty free. Latin America, which is in our hemisphere, I think is already seeing a decrease in investment from Europe. Europe is turning inward. I think one of the things President Salinas said, the investment that he might have expected from West Germany will now probably go to East Germany.

It will stay within their own bloc. I think it is incumbent upon us to organize as a bloc for stability and economic reasons, political stability. I think that the prevailing wages issues will be a factor, but unless we do this as a hemisphere, I think the hemisphere without the United States, without these free-trade agreements, is going to get worse off.

The debt problems, the aid, economic problems, pollution problems, unless we have this interdependent attitude towards our own hemisphere and unite, I don't think we will get much sympathy from the other blocs.

That is just my view, Don, and who knows? The world is moving so fast, I think we have to adjust and I think Bush and Salinas have realized this, and are moving in that direction.

Mr. **Pease**. Thank you very much.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Schulze.

Mr. **Schulze**. Let me say that I am afraid I disagree with you.

I don't foresee Japan opening their markets to anyone, even their closest trading partners. I don't see them entering into any agreement that is not tilted in their favor and a level playing field is what you would have to have. But there may be the loose blocs.

I don't think that we should go and because it will form a trading bloc, but if a trading bloc is formed as a result of trying to free trade, loosen the trade restrictions, then that is a natural process.

It shouldn't be the goal, but might be the accomplishment.

Gentlemen, with billions of dollars in external debt, Mexico needs as much foreign exchange as possible. So where is the incentive going to be for Mexico to open its doors to further United States goods and services and perhaps in the process run the risk of increasing their external debt?

Do you think they will?

And where is the incentive for this?

Mr. **Kolbe**. The incentive, if I might, Mr. Schulze, the incentive for them to do so is to join the world as a truly competitive economy. Mexico has come to the conclusion, President Salinas and his advisers have clearly come to the conclusion that import substitution which was the rule in Mexico for so many years simply doesn't work, that they cannot protect their own industries, that they have to allow competition from outside, that Mexico has to find what it can produce best and do it that way.

I remember last summer when we were in Mexico that one evening sitting at the dinner I was talking to the chairman of the Consumers' Electronics Council, who lost more than half of its members because Mexico no longer has a consumers' electronics industry. Sony and Hitachi and others from Asia have taken over the market.

The next day I asked the finance minister about that. He said, well, you don't do it any longer, why should we try? Try to protect our inefficient industries in this country? Our consumers should be able to buy the best and cheapest products like everyone else does.

So I think they realize that they must do that.

Mr. **Schulze**. I don't want to disagree with you, but are you convinced that this will be policy?

Mr. **Kolbe**. This was the Minister of Finance, Pedro Aspe, saying this. I think he has very much said, yes, this is clearly the policy that they have set.

You go to Mexico today, it is very interesting. You see little shop boutiques of California wines, for example, which were absolutely never in the marketplace before. All of a sudden people are buying American consumer goods that they couldn't get their hands on before. But they have allowed that kind of thing to come in there.

Mr. **Schulze**. You think it will not be solely for investment, but that they are not viewing an FTA as one that would just open the gates to investment only and not goods and services?

Mr. **Kolbe**. No, sir; obviously, the arrangements we make will be ones that make sure that we have access to those markets. They are very clear in saying that they want to allow us access.

Mr. **Schulze.** I think it is visually impossible for us to have a FTA with a strong Socialist government and where there are large government-owned enterprises. How do you see that shaking out, both politically and economically?

Mr. **Kolbe.** Mexico sold more than 500 of its state-owned industries, including many of the major ones. They closed the steel plant, sold the airlines, denationalized the banks. They are selling Telmex, the telephone company. They have opened up through regulation, investment law.

I think they are going to change that fundamental law in the constitution to codify that to make sure that investment is more open. Mexico is today, I think, not a socialist country.

Mr. **Schulze.** I think they are going to have to.

Mr. **Kolbe.** Yes. For example, private investment now is building the highways in Mexico, toll roads, because they recognize that they need to have that kind of private investment.

I think they have moved so dramatically. It boggles the mind when you stop and see what is happening down there.

Mr. **Schulze.** I thank the gentleman and thank the chairman.

Chairman **Gibbons.** Mr. Guarini.

Mr. **Guarini.** Thank you.

I want to compliment you gentlemen on summing up a very important issue so well. You have done an outstanding job. There will be some pain in the short run, but the long run advantages far outweigh the short run disadvantages. Inasmuch as the destinies of our countries, by being neighbors geographically, our futures are forever linked together. That is, what is a problem in Mexico, spills over to the United States.

So we have to really attend to that problem. I would like to ask you to just focus on two issues which are two major issues in our country today: the drug problem and the illegal alien problem.

Could you enlighten us and give us your opinions? I would like to ask each of you as to how this will beneficially attend to our national drug problem and how it would help to resolve some of our illegal alien problems.

Mr. **Richardson.** First, on the undocumented worker issue. I am convinced that if we had proceeded with tangible economic development, tangible economic ties, such as a free-trade agreement between Mexico and the United States prior to the enactment of the immigration bill, we would not have a large part of this problem.

What we could have done is created substantially more jobs on the Mexican side of the border, thus preventing this flight. I think what this will do—and President Salinas has ratified this. He has said that he wants to export jobs and industry, not people. I think you are going to reduce immigration.

I think the immigration law is working reasonably well. We have given more funds to border enforcement. It is not working perfectly, but I think there has been a noted flow of immigration. I think, with the creation of more jobs you will see the same.

On the drug issue, that is a very complex problem. I think Mr. Rangel knows it better than anybody. But what I think this free-trade agreement will do is it will accent the United States-Mexico relationship on positive sides of the relationship, instead of a process where on drugs we are calling each other names.

I think on the fact of the drug issue, we are making progress, not as much as we should be. There are still problems of corruption and other issues, but I think we have to keep these negotiations and disputes on separate tracks.

I think that there has been again progress on the drug front, but you know how difficult it is with the supply and demand on our side.

We debate here whether we should put more money into drug education rather than drug interdiction and enforcement. Salinas is making an honest effort. He has to get his bureaucracy behind him.

I just don't think that we should link the two. And I think what the free-trade agreement will do is accept the relationship on something positive other than the disputes that we have had on drugs and Central America and immigration.

I think this is why it makes sense to proceed with it on a separate track.

Mr. GUARINI. Could you share your thoughts with us on those two issues?

Mr. KOLBE. I think Mr. Richardson has covered it very well. The goal of the free-trade agreement is to raise the standard of living in both countries, and I think it will happen fairly dramatically in Mexico.

They are experiencing a fairly positive growth rate right now and all the economic indicators are very positive ones, I think, clearly, as a result of the economic changes that President Salinas has brought about.

As that occurs, the need for immigration to the United States or emigration to the United States will be reduced. That is the goal.

As the President said to us the other morning, and at dinner the other night, he wants to have Mexicans working in Mexico, not in the United States. The free-trade agreement will certainly help in that.

As you point out, there are short term dislocations any time you do this. I absolutely agree with Mr. Richardson on the drug issue.

This focuses on the positive thing. It affects it positively in the sense that it will enhance cooperation between the two countries.

Mr. GUARINI. I do agree with both of you, and I also think that some of the tradeoffs and side benefits of this agreement could mean even more and greater cooperation between our two nations.

Thank you very much.

Chairman GIBBONS. Mr. Rangel.

Mr. RANGEL. Thank you.

I agree with what both of you have said, although I don't see the need to have separate tracks. I think we do have the beginning of a positive relationship with the Government of Mexico and moving forward to eradicate drugs and unless Ambassador Hills can indicate that this would be an impediment to an effective agreement, I don't see why we have to be on a separate track.

We are friends and neighbors and partners. Eradicating drugs is an international problem.

I certainly would like to see it get the same type of priority as legal trade.

Chairman GIBBONS. Mr. Levin.

Mr. Levin. I have no questions, Mr. Chairman.

I am sorry I missed your testimony. I am involved in another subcommittee hearing this morning.

As always, I appreciate your invitation to us around the full committee, but not on the subcommittee, to participate in your vital hearings.

Thank you very much.

Chairman Gibbons. Thank you, gentlemen.

I welcome you, Madam Ambassador. I don't know that you agreed when you took this job to undertake as much as you are being required to undertake now, but I don't know of anybody in Washington other than the President, who has more responsibilities than you have.

So we are very appreciative of your time. Go right ahead.

STATEMENT OF AMBASSADOR CARLA A. HILLS, U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY CHARLES E. ROH, JR., ASSISTANT U.S. TRADE REPRESENTATIVE FOR NORTH AMERICAN AFFAIRS

Ambassador Hills. It is a pleasure to be here, Mr. Chairman and members of the committee. I have submitted a full written statement.

Chairman Gibbons. It will be a part of the record.

Ambassador Hills. If I may just summarize a few points.

As has been noted, Mexico is our third largest trading partner. We account for two-thirds of its largest trade. Since President Salinas took office in 1988, we have seen a satisfactory change in Mexico's trade policies. Tariffs have been cut to a maximum of 20 percent.

Import licensing, which in 1983 controlled all Mexican imports, has been slashed and now covers only 7 percent of the value of our exports to Mexico. In 1989, regulations have gone a long way to reforming Mexico's investment rules. Mexico is in the midst of a major reform of its intellectual property rights, and major privatization is occurring. The United States certainly has supported and encouraged these efforts and there are important areas where liberalization could proceed further.

That accounts for the fact that President Bush and President Salinas have endorsed the goals of a free-trade agreement, and are of the firm view that it will provide substantial benefits to both countries, primarily in the form of greater access to the Mexican market which would benefit our capital goods, manufacturers, furniture makers, grain growers, and forest products companies.

There is potential for greater security of investment, as well as expanded investment opportunities, that will be attractive to such industries as telecommunications, chemicals and the transportation equipment. Providers of services such as trucking, insurance, banking and securities could gain access to markets that are now not open to them.

I want to work very closely with members of this committee and with other Members of Congress, and I look forward to hearing your view.

We will also seek the views of the members of our private sector advisers and of persons outside our advisory groups. We are interested in the views of other foreign governments which may believe that they would be affected by this move.

Finally, I want to assure you that our actions will be fully consistent with and supportive of our efforts in the Uruguay round. The round remains this country's top trade priority. Both President Bush and President Salinas noted that no single trade action will give both countries a broader range of benefits as will the round.

Both Presidents have pledged to work toward a successful conclusion of the round by this December. I am happy to answer your questions.

[The statement of Ambassador Hills follows:]

TESTIMONY OF
AMBASSADOR CARLA A. HILLS
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
JUNE 14, 1990

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss U.S.-Mexican trade relations. At no time in recent memory have our trade relations been as harmonious as they are today.

This hearing is being held at a propitious moment. Three days ago, Presidents Bush and Salinas met and endorsed the goal of a comprehensive bilateral free trade agreement between the United States and Mexico and directed that we start the preliminary work necessary to begin those negotiations.

When Presidents Bush and Salinas took office 18 months ago, who would have imagined that U.S.-Mexican trade relations would have come so far so fast. While many eyes have been focussed on Eastern Europe, unprecedented changes have been taking place in our southern neighbor, as well.

Today, I would like to review the dramatic transformation in Mexican policies, explain what we have been doing with Mexico to date, and look beyond the horizon to the possibilities opened by the announcement of Presidents Bush and Salinas.

Mexican Trade and Investment Reforms

Mexico is America's third single largest trading partner, and we account for over two-thirds of its total trade. In 1989, two-way trade exceeded $52 billion. We exported $25 billion to Mexico and imported $27.2 billion from it.

While Mexico is a key U.S. trading partner, for many years we had basic disagreements over trade policy. We saw a Mexico whose policies were highly interventionist, characterized by trade protection, a restrictive investment environment, a large degree of state ownership and control of business, and an overly regulated business climate.

In the mid-1980s, however, the first signs of change began to appear. Former President de la Madrid began this process and took the major step of Mexican accession to the GATT in 1986.

But it is since the Salinas Administration took office in 1988 that we have seen a sea change in Mexico's policies. President Salinas has taken a restrictive trade and investment regime and moved it toward becoming one of the most open among developing countries. In most cases, Mexico has acted unilaterally to open itself, often going beyond its formal GATT requirements. Let me give you a few examples.

- Mexico has cut its top tariff to 20 percent, far below the 50 percent level bound when Mexico joined the GATT. The average trade-weighted tariff has fallen from over 25 percent in the mid-1980s to about 9 percent today. In comparison, U.S. tariffs average about 4.2 percent.

- Import licenses, which in 1983 controlled all Mexican imports, have been slashed. They now cover only 250 items, or roughly seven percent of the value of U.S. exports to Mexico.

- In May 1989, the Salinas Administration issued new regulations that went a long way toward reforming Mexico's investment rules. Those regulations began the process of opening doors for U.S. and other foreign investors, doors that have been shut for far too long.

- Mexico is in the midst of a major effort to strengthen its protection of intellectual property rights. It has committed to lengthening the patent term to 20 years, extending coverage to such areas as pharmaceuticals and chemicals, and improving protection for trademarks and trade secrets. As a result, in January, Mexico was removed from the special 301 "priority watch list".

- The role of government as an owner/operator of business is being drastically reduced. Of the 1155 enterprises owned by the state in 1982, 801 have been authorized for divestment and 619 have actually been privatized. Major examples include the recently announced decision to privatize the banking system; the sale of Aeromexico and Mexicana airlines; the planned divestiture, with sale of shares to foreigners, of Telmex, the national telecommunications company; and sales in areas such as automobiles, food processing, steel and cement.

U.S. Policy Toward Mexico

While the impetus for reform has been in Mexico, the United States has not sat idly by. We have encouraged and supported Mexico in its process of reform.

- We concluded the "Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations" in 1987. The "Framework Agreement" established a consultative mechanism to discuss trade issues and resolve trade differences. Under the Framework Agreement, the United States and Mexico have established 10 working groups in five areas: agriculture, investment and intellectual property rights, services, tariffs, and industry.

- In October 1989, Presidents Bush and Salinas signed the "Understanding...Regarding Trade and Investment Facilitation Talks" (TIFTs). The TIFTs process builds on the 1987 Framework Agreement and establishes a mechanism for possible negotiations on specific issues or sectors. This March, we agreed that "petrochemicals" and "standards, testing and certification" would be the first areas for negotiation under TIFTs. No negotiations have yet been held due to scheduling difficulties with the Mexicans.

- Last September, we renewed the steel VRA and reached a bilateral consensus agreement under which subsidies and nontariff trade barriers to steel would be prohibited. Both countries agreed to work together in the Uruguay Round to incorporate the provisions of the bilateral accord into a multilateral agreement and to press for the reduction and elimination of steel tariffs.

- In February, we signed a textile and apparel trade agreement which eliminated quotas on over half of Mexican-made textiles, boosted most of its other quotas by a quarter and expanded the scope of mutually beneficial outward processing trade.

- In April, we granted Mexico $2 billion in benefits under the annual review of the Generalized System of Preferences (GSP) program. GSP gives certain developing countries duty-free access to the U.S. market for specified products. Mexico was the major beneficiary from the annual review, and our decision took into account the impressive changes in Mexico's trade practices in recent years.

- In 1989, Mexico was the first country to reach a new debt accord under the Brady Plan. That agreement, which covers over half of Mexico's total external debt, provides substantial debt and debt service relief. The new debt package has bolstered investor confidence in Mexico and has placed Mexico on a firm footing for future growth.

Outstanding Issues

Mexico has shown commendable daring in creating a more open, outward-looking economy. However, there still are important areas where liberalization could proceed further.

- We would like to see additional steps to eliminate or reduce tariff and nontariff trade barriers. In agriculture, for example, import licenses still restrict about 59 percent of the value of U.S. agricultural exports to Mexico. Licenses are granted or withheld in an arbitrary manner and often act as import bans. Commodities affected by licenses include oilseeds, grains, dairy products and certain fruits and vegetables, such as apples. We are working vigorously to see that unjustified licensing requirements are eliminated as required when Mexico joined the GATT.

- Investors believe more could be done to liberalize investment. First, the new regulations are administrative acts only; Mexico should consider amending the national investment law. In key industries, such as petroleum and financial services, ownership is reserved by the Constitution specifically or by statute to the State or Mexican nationals, or foreign investors are limited to a minority interest. Real estate investment is restricted in some areas.

- In services, we look for additional openings in many areas, including banking, securities, insurance and transportation. In these areas in particular, market entry is restricted, and in some sectors U.S. firms are denied access to the Mexican market.

- Many of Mexico's reforms have been through executive decree. There is much concern in the business community that such decrees could be easily reversed in the future.

- While Mexico has pledged to change its patent and copyright laws to improve protection for intellectual property rights, we want to see those pledges carried out, to provide effective enforcement of intellectual property rights and immediate commercial benefits to intellectual property rights holders.

Many of these areas are being addressed, in whole or in part, in the Uruguay Round. Mexico has played an active and constructive role in most areas of the negotiations, working to bridge the differences that sometimes exist between developed and developing countries.

The Future of U.S.-Mexican Trade Relations

This past Monday, Presidents Bush and Salinas made their historic statement on a bilateral free trade agreement (FTA). They made their pronouncement in the firm belief that an FTA will create a stable, prosperous economic environment, laying the foundation for a vigorous trade and investment partnership for the 21st century.

In our view, the possible gains to the United States include better access to a growing market for our goods and services producers as well as our investors, and a greater variety of goods on the market shelf at lower prices for our consumers.

- Greater access to the Mexican market could benefit capital goods manufacturers in Illinois, furniture makers in North Carolina, grain growers in Kansas, and forest products companies in Washington and Oregon.
- The potential for greater security of investment and expanded investment opportunities could be attractive to industries such as telecommunications, chemicals and transportation equipment. We already have over $5.5 billion in direct investment in Mexico, over 62 percent of all foreign direct investment there.
- Providers of services such as trucking, insurance and banking and securities, whether located along the border or elsewhere in the United States, might gain access to a market now closed to them.

These are some of the areas where we might gain and would certainly explore in any FTA. In addition, we see a free trade agreement as a strong reinforcement for the free market reforms Mexico has already made and a catalyst for future reform.

We will examine all aspects of the issues involved in any agreement in the coming months. In their statement, Presidents Bush and Salinas charged me and my counterpart, Dr. Jaime Serra Puche, the Mexican Secretary of Commerce and Industrial Development, to begin the domestic consultations and preparatory work needed to initiate such negotiations. We are to report back to them as soon as we practicably can, but in any event before their meeting this coming December in Monterrey.

As part of this process, we will seek your views as well as those of other members of Congress. I look forward to receiving your guidance on this venture and promise to listen closely to you. As with any potential trade agreement, we want a partnership with Congress.

We will also seek the views of our private sector advisors and others with an interest in any such agreement. We will use these consultations to have a full airing of the issues involved before embarking on negotiations for a free trade agreement with Mexico.

The Uruguay Round

Finally, I want to assure you that our actions as we explore an FTA will be fully consistent with and supportive of the Uruguay Round. The Round has been and remains the highest U.S. trade priority.

As Presidents Bush and Salinas noted, no single trade action will give both countries the range and variety of benefits achievable from the Round. Both the United States and Mexico are committed to working toward a successful conclusion of the Round by this December.

Conclusion

Clearly, we have much work ahead of us. We are at the start of what should prove to be an historic journey. I look forward to making it with you.

Chairman GIBBONS. I know you have a luncheon engagement with a former member of this committee that we are very proud of, who is in the White House. I hope that when you are down there, you discuss his timetable and your timetable on this, so we can be prepared.

On our end, I hope that we are prepared without getting into specific time deadlines from you. I am going to ask the committee to conduct a very full and thorough set of hearings to help you and to help us better understand what the challenges are out there.

I can only hope that, as I have seen you do in other negotiations you fully incorporate all sectors of the private sector in this discussion so that we can learn from them what are the key issues and how they see them need to be solved.

Can you give us—as we expect to invite you up here real soon again, so if you can't do it now, we will defer until later—can you give us a rough timetable on this for when you think the President will formally move and how quickly your people can be prepared to go into this necessary negotiation.

Ambassador HILLS. I think the timing will be governed by our consultation process. As the President said, as both Presidents said, they dispatched their trade ministers to do the necessary preparatory work and consultation, which in this country means labor, business, Congress—the full range of consultations which we believe are necessary.

What we hear will determine how fast we are able to move on this initiative which seems to the President to be a very strong initiative from both countries' point of view.

But we will continue to consult with you. As you know, we will have our regular talks as we always do. So you will be the first to know when we are thinking that we have come to closure on our consultation and how we think that it would be appropriate to proceed. At that time we will get your advice as to whether you think our choice of time and the path we have selected for proceeding is the best one, because this is a partnership and we want to work closely with you.

Chairman GIBBONS. I want to commend you publicly, as I have privately, for always being so courteous and attentive and thoughtful to call and consult with us, as you have in the past. That is helpful to us, and we appreciate being able to work with you on that basis.

I have a whole lot of questions, but I will defer them.

Mr. Pease.

Mr. PEASE. Mr. Chairman, is the time I spent with my previous witnesses deducted?

Chairman GIBBONS. Just go ahead.

Mr. PEASE. Thank you very much, Madam Ambassador, for coming here.

Your statement today was quite general. I think that reflects the fact that we are in the very early stages of consideration of this process, and I can appreciate that.

You recently received a letter from Chairman Rostenkowski and Mr. Archer suggesting that this year was probably not the year to begin work on a United States-Mexico trade arrangement in view of our pressing responsibilities in the GATT.

Do you feel you will be able to keep the GATT work uppermost on your agenda while doing the preliminary work on the United States-Mexico free-trade discussions?

Ambassador HILLS. I do, Mr. Pease. I really do. We are going to do the preliminary consultation, listen very carefully and form a plan which we will share with you.

But, as you know, under our legislative process, when we make the determination that it would be wise to begin to negotiate a free-trade agreement with Mexico, we will give you notice of that intention. There are 60 legislative days, which work out to 5 or 6 months. That will put us over into 1991 before we are in the midst of serious negotiations on the terms of such an agreement.

So I think timewise, it will work, which is not to say that we don't have enough to do.

Mr. PEASE. All right. I would like to raise a couple of delicate questions and in a way, I regret to do so, but I think we really ought to have everything on the table.

In the Wall Street Journal on Monday of this week, there was a piece questioning the changes that we have seen in the Mexican economy are likely to continue for the long-run or not.

Also, in yesterday's Washington Post, there was a story about human rights groups, America's Watch, issuing a rather critical report on Mexico's record in human rights. Part of the problem that America's Watch points out is the long-term domination of Mexican politics by the PRI, and I guess that is tied in with the stability question.

Given the ferment that we are beginning to see in Mexico in political terms, there might well be a change in political leadership at some point.

In turn, we have seen, as you mentioned in your testimony, a satisfactory change in Mexican policies over the last 8 years.

What do you think the likelihood is that, if any, that there might be a satisfactory change in the opposite direction in the next 8 or 10 years, or do you think the changes that have been made are irrevocable changes?

Ambassador HILLS. You are correct that many of the changes have been regulatory as opposed to legislative. But that may be an argument in favor of a free-trade agreement, which would tend to reinforce and make more permanent the sorts of economic changes that we so heartily applaud that the Salinas administration has put in place.

So that we do want to work with Mexico to reinforce and to make more permanent those economic changes that are so beneficial, not only for our country, but we believe for Mexico and for the entire global trading system.

Mr. PEASE. OK. Thank you.

Finally, let me just give you an opportunity to answer the question that I posed to my two colleagues a few minutes ago.

Ambassador HILLS. The zinger?

Mr. PEASE. That is it. Given all of the advantages that have been cited to us for wedding a highly industrialized country to a developing country, do you sense any movement on the part of the Japanese to take advantage of this same theoretical advantage with some of their developing country neighbors?

Ambassador **Hills**. I have not heard of any neighbors of Japan anxious to enter into a free-trade agreement or any other trade agreement, but I simply do not know.

We would not know, of course, until such an agreement were made public. So I don't know of one at the present time, and there are certainly some reasons why one would not anticipate that the countries in that geographic area would be anxious to enter such an agreement, but those things could occur.

We would just have to deal with that occurrence at the time that we were apprised.

Mr. **Pease**. Perhaps Japan will make a move sometime in the next year or so, and just confirm the wisdom of free-trade agreements. I will be watching with anticipation for that to happen.

Thank you very much.

Chairman **Gibbons**. Mr. Guarini.

Mr. **Guarini**. Ms. Ambassador, you are always one of our most welcome witnesses. It is good to see you again.

Let me ask you something concerning the CBI. For 3 years we have been trying to enhance CBI II. We want to increase access to the United States market for those 22 countries, also our neighbors, that all lie next to Mexico. We have had a great deal of difficulty in gaining acceptance of this.

Why should we be hopeful of trying to get a free-trade agreement with Mexico through Congress? We have so much trouble trying to access the markets. They need help also.

Haiti is probably even worse off than Mexico.

Ambassador **Hills**. I suspect, Mr. Guarini, that the reason we have more interest in Congress with respect to Mexico is that there are more visible benefits to constituencies in this country.

The administration has tried very hard to support CBI II, and that legislation did pass this body. It has had difficulty in getting broad support in the Senate and indeed in the House.

Each of the benefits have been plucked from it one by one—and the administration and, I think, the chairman of the Finance Committee, have felt that to make it permanent, that is, to get it extended so it could be relied upon, was the challenge of the moment.

But with the Mexican free-trade agreement as you have heard from some of your colleagues here today, as I think you will continue to hear, and as we have heard from voices all around the country, businesses, businesses of every description, many see great opportunities for them as a result of a free-trade agreement with Mexico.

Mr. **Guarini**. If we have it, would that enhance, perhaps, the way we handle the CBI countries or is it worth even trying to some day have a free-trade agreement with the 23 CBI countries?

Ambassador **Hills**. I think that there are many things that we ought to do in this hemisphere and that over time in aggregate, they could make our trade with Latin America greatly improve. I agree that trade is not a zero-sum game, but there are different types of agreements for different levels of development.

I just returned from the Organization of American States' 100th anniversary meeting, and urged liberalization of trade and our willingness to enter trade agreements of the type we have just entered into with Bolivia with other nations in Latin America, and from that point we could move on to more extensive agreements.

We do want to lower barriers so that trade can expand with all of our trading partners.

We think now that with the changes that we have seen in Latin America, which are certainly very, very visible in the case of the Salinas administration, we want to capitalize on those changes, make them permanent, and enhance opportunities for an expansion of trade.

Mr. GUARINI. I do wholeheartedly join in your efforts. But I wonder whether you see the linkage or you feel there should be a linkage between the trade benefits that we will be discussing and drugs and immigration?

We do link human rights to trade and that has been part of a national policy. Do you see getting the drug czar or the heads of our immigration department involved in this process so that we can assure that there is a tradeoff, a better cooperation in resolving some of these national issues that plague us, drugs and immigration? Should this be linked together as part of the deal that we make on trade?

Ambassador HILLS. I tend to think of a trade agreement as dealing with trade, and that is licit trade, not illegal trade. But I do believe that having stronger trade relationships enables governments to work more closely together on a wide range of political and economic and social problems.

Mr. GUARINI. You don't see trying to resolve these crucial issues as part of a package in our dealing with Mexico? That we will perhaps miss a great opportunity to put a broader list of issues, namely drugs and immigration, which really are first and utmost in the minds of every American?

Ambassador HILLS. I can tell you that I participated in the binational commission meeting in August 1989, and that we are getting considerable cooperation across a broad range of issues with the Mexican Government; that our Attorney General and Mr. Bennett both participated in those meetings and were heartened by the kind of cooperation they were receiving.

I think the two areas where we will benefit from a free-trade agreement in the drugs area is from the creation of jobs and economic opportunity. There will be less reason for an individual over a range of issues to turn to drugs as a means of economic survival. Cooperation over a range of issues is enhanced where you have a good economic relationship between two governments.

Mr. GUARINI. I agree with you, but why miss this opportunity?

Why not have the Attorney General there, Mr. Bennett there, Immigration there, so we can address not only part of our problems, which are economic and political, et cetera, but all of our problems.

Ambassador HILLS. Well, we will consider that. There are so many problems that you could have quite a table.

Mr. GUARINI. I know, but what an opportunity to become better neighbors and have a broad, overall policy instead of just a narrow concept. Sometimes we do things, put things in pigeon holes. I encourage you to look at the broader picture.

Thank you.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman; and Madam Ambassador, it is always a pleasure to have your testimony before the committee and your input. I agree with Mr. Guarini that this is an opportunity and I think that drugs is a very important topic and cooperation is important.

I am afraid I have to disagree with you that the improved job opportunities will reduce the drug problem. I think it will take a lot more than job opportunities.

There are and have been tremendous job opportunities in the United States of America over the past decade and we have not really seen a reduction in the drug problem.

Madam Ambassador, in your 1990 national trade estimates report, you cited Mexico's barriers and problems in the areas of service, investments, import licensing, and intellectual property.

What role has Mexico played in the GATT with respect to these issues and the Uruguay round?

Has Mexico supported the U.S. position?

Has it been neutral?

Has it been an antagonist?

What has our relationship in the trade area been with Mexico in the past because it seems to me that that is a good way to judge what our relationship might be in the future.

Ambassador HILLS. Mexico has been a very constructive player in the Uruguay round. In April Mexico hosted the informal ministerial to which it invited 30 trade ministers. I think that we had a very constructive dialog that moved ahead the negotiations.

That meeting was skillfully chaired by Minister Serra, the Trade Minister of Mexico. And we compliment Mexico for the leadership that it has given in a number of areas.

That is not to say that Mexico is not representing Mexico. Of course it is.

It is a developing country, and it has a set of interests. But as you know, Mexico is a unique developing country. The economies most developing countries are primarily agriculture, where our exports from Mexico to the United States are primarily industrial goods.

So that Mexico is a constructive partner, understands the values of the areas that you have recited, has come an enormous distance in 2 years to liberalize its trade, and we are bent on trying to be sure that those liberalizations remain permanent and others are added to them.

Mr. SCHULZE. What do you see in some of those areas, services, investment, import licensing, and intellectual property?

Ambassador HILLS. One of the most important to us is intellectual property. The Salinas administration has made a commitment to us, and publicly, that they will seek a good intellectual property law, particularly patent law, covering pharmaceutical products this year and will implement it in 1991. That is very good news from our point of view.

In investment the Salinas administration has opened up Mexico to a very considerable degree. It was not very many years ago that investment was entirely closed off.

Today, there is 100 percent opening with respect to a majority of investment opportunities. That is very welcome to this country, which would like to invest where the competitive opportunity dictates and not be foreclosed.

Mr. SCHULZE. I can understand that it is in their best interest to open the door to investments and they would want to encourage that. But it seems to me that it is in our best interests to have that door opened completely for goods and services.

How do we stand in that area?

Ambassador HILLS. Of course, it is to their advantage to open the door to foreign investment. So many want investment, but do not understand that to get investment, a country must provide an atmosphere and a climate that is hospitable to the investor. Mexico seems to have understood that, whereas some of our other trading partners have not.

So that in the area of goods, I think Mexico has slashed tariffs from what was just a short while ago 100 percent down to roughly 20 percent. And many tariffs are way below that.

They have made enormous strides across-the-board and I think it is to our benefit to try to make those improvements permanent.

Mr. SCHULZE. I agree, and I believe and I agree with you that they have made strides. I also agree that they should not have been 100 percent in the first place and just because they reduced to 20 percent does not mean that we should say the millennium is here, but should work on phasing out the reduction of those tariffs.

Do you think that we will be able to reach a satisfactory and rational agreement?

Ambassador HILLS. With Mexico? I would urge Mexico for its own interest to pass a comprehensive intellectual property protection, and I think that that will fan the creativity of its own people, will attract investment, and it should not be done out of altruism toward any nation.

Mr. SCHULZE. Would you be inclined to think that we should have wording in the agreement that it would not renew the effect unless there was a substantial intellectual property rights law?

Ambassador HILLS. We feel that there must be intellectual property protections for our entrepreneurs and so I do not think we could achieve an agreement that could be called a free-trade agreement without having intellectual property protections be a part of the agreement.

But as I mentioned, we have a commitment that those laws will be in place, introduced this year and implemented next.

Mr. SCHULZE. Ambassador, just for my edification, would you tell me how you see this scenario playing out? As you are aware, I was very much disappointed with the way the Canadian agreement ended up with us rushing around at the last minute, the last 24-48 hours, and sort of holding the clock back.

How do you see this playing out?

Ambassador HILLS. I think we will try to do a very careful job in consultation with interested people so that we understand where are the benefits from the point of view of a broad range of interests and where are the worries. And then try to develop mechanisms to deal with the worries.

We want to do a sound, economic analysis so that we feel comfortable that when we tell you these are the projections from a certain set of facts, that you can rely upon them.

That is why I am so pleased that we have this chance to listen and to consult before we get into any negotiation. I think that such thorough consultations may have been lacking in the case of the Canadians free-trade agreement.

Of course, I wasn't involved at that time, but I am gratified how we are taking this approach. So when it seems timely, when we have gathered all the facts, we will share them with you.

You can certainly tell us if you have heard of any concerns from your constituencies, so that we do a good job of communicating to all sectors that will be affected by any agreement of this nature.

Mr. SCHULZE. Thank you.

Mr. DOWNEY. Madam Ambassador, it is good to have you here. I will try to ask you some cosmic questions about this free-trade agreement, if I could. I like this idea.

I would probably feel more comfortable if I really believed Salinas won the election. I don't think he did, but he is there and will be there for a while, and we should do as much as we can to solidify this idea of free trade with the Mexicans.

But from a macroeconomic point of view, something concerns me that, when we do this, when we integrate the Mexican economy more into our own and us more into them, that it is going to have somewhat profound impact on both countries or should, probably more on their country than ours.

But they are at a lower wage stage and clearly as we deal with them on a more open basis, the trading of goods and services across the border cannot help but have an impact in the United States on wages in some degree.

We are better off addressing that honestly and openly upfront than attempting to skirt that issue because we will engender the ire of the American labor movement with this one way or another.

It seems to me that we can make a case to them, at least I hope we can, that in the long run, we are all better off if the Mexicans are richer, and so are we, and free trade will make us both richer. But I will ask you about that first premise.

Do you agree that we will see this somewhat depressing effect on wages as our economies become more integrated? How would you go about handling that issue with the American people?

Let me ask you one other question and then I will be quiet. My sense is that what we have done with Canada and what we will do with Mexico and what is happening in Europe is that we are seeing the emergence, whether we want to admit it to ourselves or not, of major trading blocs in the world even though we will continue to do our best job of integrating the world economy at GATT, even though I know that is probably not something you would subscribe to, nor would I.

I am concerned about the emergence of trading blocs. I want to hear your thoughts about it as well.

We have had profound political change in 1989 that we are dealing with and economic change seems to be coming just as quickly.

My question is about the emergence of trading blocs. A, are they good ideas? B, do you believe they are inevitable? C, how do we continue to keep an international sense of trade alive when we are in fact probably part and parcel of the creation of one of these trading blocs here in the hemisphere?

Ambassador HILLS. Your first question deals with the potential depressing effect on wages in this country as we reduce the trade barriers between us. We want to study that. We have done some initial studies.

In my prior life, when I was chair of the Urban Institute, I found that the studies came out with results that were quite counterintuitive, that it is not necessarily the fact that by reducing tariffs between two nations where there is a combination of lower wage rates, that you will necessarily have a depressant on the wage rates in the higher wage country.

What you may have is a relocation of the more primitive type of work to the country with lower wage rates and expansion of economic opportunity in both countries. That is, that there will be more efficient activity further up the manufacturing line.

The fact is that the American worker is much, much more productive than the Mexican worker, which accounts for part of the differential in wage rates. There are some things that no manufacturer would send to Mexico but would rather have done here.

So we would want to study that. I think we can do an evaluation. Of course, if there are adverse impacts on some sectors, we will have to think about the kinds of remedies that might be available. Keep in mind with all trade agreements, they are phased in over time. With Canada we talked in terms of a decade in our negotiations in the Uruguay round where we were talking about phasing out restrictions over a decade and in some cases more than a decade.

So it gives the sectors adversely affected time for adjustment. In addition there are things that we can do to assist the adjustment. And those, too, we will want to study and share with you and get your views.

With respect to blocs, I know there is a temptation to think that as countries reduce trade barriers amongst themselves, that trading blocs are inevitable. "Bloc" is a word that carries some baggage. It communicates exclusion. It suggests that you are worse off if you are outside the bloc, better off if you are inside the bloc.

I would hope that we could continue to put our emphasis on full multilateral liberalization. We are multilateralists. As possessors of the largest single market in the world, it behooves us to have lower trade restrictions all around the globe, and we need to see that happen.

At the same time, we have neighbors, close to us, with common borders so that there are special circumstances that argue for special reduction of trading barriers. Particularly where as is the case of Mexico, the current administration has made such an enormous effort to reduce trade barriers. We want to make those benefits permanent, and they see a political opportunity for them to solidify the liberalization that they have achieved.

All of these circumstances argue that we should try to work out an arrangement that would reduce the trade barriers over time, provide opportunities for investment for the provision of services, and we think an enormous economic opportunity for this country and for Mexico.

And it is in our benefit, of course, to have Mexico be better off. We want Mexico to become more wealthy, to have more jobs and to be more secure.

Mr. Downey. Thank you.

Chairman Gibbons. Mr. Rangel.

Mr. Rangel. Thank you, Mr. Chairman.

Madam Ambassador, the more I hear you, the more I am impressed with you and the more proud I am that you represent our Nation not only at the trade negotiating table, but wherever you have been involved in public service. You certainly have gained and earned the reputation of being a great American. That is why when you negotiate for the United States, whether we win or lose, I feel comfortable that certainly we have had our best opportunity to convince other people that you are protecting our interests.

It is for that reason I was a little surprised in your response to my colleague Frank Guarini about the question of drugs. You will consider putting the question of drugs on the table but were concerned about so many other problems that may get on the table that it might interfere with your ability to continue to effectively represent what is in our best trade interest.

The reason I say that is because I have always thought that trade was one of the most effective tools that we had as a part of a foreign policy arsenal or indeed olive branch. Whether we used it as most favorable nation or Jackson-Vanik or an incentive in the Caribbean Basin Initiative, that it indicated that with friends we wanted to help them.

We have a very positive dialog with our friends in Mexico. It would be troublesome if this item was not really placed on that table—and I don't really think you need an Assistant Secretary of State of any drug czars to assist you in supporting our President who wherever he gets an opportunity, says that drugs are a threat to our national security. To have it inferred that a threat to our national security would not be on the table as we talk with our friends who are joining us in trying to prevent the hundreds of tons of opium and marijuana and cocaine that is pouring across this border, to me, would be, as people say, sending the wrong message not only to our friends in Mexico, but indeed throughout the world.

Again, if ever there was a vacancy in international law enforcement or controlling the drug crisis, I hope you might see an opportunity in your illustrious career to consider it. I would feel more comfortable in just knowing it is not just one of the many problems that you are wrestling with, but that it has the same high priority as President Bush has indicated that it deserves.

Thank you, Mr. Chairman.

Ambassador Hills. Thank you, Mr. Rangel.

Mr. Levin. Thank you, Mr. Chairman.

Like many others, I welcome this initiative. I think Mr. Downey's advice, if I might say so, is very appropriate, that we take the thorny issues up front. Let me just ask you a bit about one of them that was discussed or referred to by Mr. Downey.

On page 4 of your testimony you say that, Greater access to the Mexican market could benefit capital goods manufacturers in Illinois, furniture makers in North Carolina, grain growers in Kansas and forest product companies in Washington and Oregon.

In subsequent testimony, we will hear from Mr. Robinson and others. As my friend Jim Robinson says, the FTA will result in new manufacturing and supply relationships which will improve the international competitiveness of both United States and Mexican companies.

It seems to me that we need to ask ourselves up front how that might work out. This is more art than science. But we need to ask ourselves how it might work out. And you suggest some answers. Capital goods manufacturers in Illinois, furniture makers in North Carolina.

But let me ask you this. Do you intend to study—it is more than just the impact on wages. We are talking about business people as well as the person in the labor movement, the worker. Are you going to study as this goes along what is the likely impact of a free-trade agreement on particular industries in this country?

Ambassador HILLS. Yes.

Mr. LEVIN. You are going to do that?

Ambassador HILLS. Yes, we will do an in-depth analysis of the economic effects of reducing trade barriers between the two countries. We will do it on a sectoral basis as well as on an aggregate basis.

Mr. LEVIN. Good. As you undertake this, is it your assumption that it doesn't matter whether a good is produced in Mexico or the United States?

Ambassador HILLS. Well——

Mr. LEVIN. Does it matter whether something is manufactured in Mexico or the United States, assuming the company is "an American company"?

Ambassador HILLS. What very often happens, Mr. Levin, is that some component parts, particularly as we have seen in the automotive sector, are manufactured, in Mexico, but the final composition is done in the United States. And by having access to a less costly component part that is made in Mexico, our manufacturer in the United States is made more competitive. That means that both win.

You have the jobs and the economic enterprise in Mexico with respect to that particular part. You have the economic enterprise and jobs in the United States over a different part of the manufacturing process.

Mr. LEVIN. I would like to take other industries than auto. It really doesn't matter which industry we are talking about. It could be farm equipment, it could be virtually anything, the steel industry.

The question I would like to ask—and time is running out. Maybe we should talk about it some other time or it should be part of your study. There is an assumption in your answer that if the parts are made on one side of the border or not really doesn't matter in terms of the American, of American economic strength. In other words, what I am saying is American economic strength may not be the exact same thing as American competitiveness.

It seems to me that we need to look at that because if, let's say, farm equipment, if it is an American company and all of the parts are made and assembled in Mexico, that in a sense makes that farm equipment company more competitive internationally because it can then at a lower cost sell the tractors in competition with Western European manufacturers and Japanese manufacturers.

But the question I think we need to ask ourselves is, does that automatically mean the American economy, our economic strength is increased?

Ambassador **Hills**. Well, you are right, that is a complicated issue. We will be studying all aspects of it. But let me suggest to you that investment will find its way to the most hospitable place.

What we have found with Mexico, unlike other developing countries, is that manufactured goods are the principal part of their exports to us and that they are at the lower end of the development chain of a final manufactured product. Thus, we benefit from getting those component parts that are less costly, and we become both more competitive. To use your words, our economic strength is increased because we are able to get competitive parts that we use at a higher level on the production chain.

I can give you some data, and I will be delighted to do that. Our analysis will affect our thinking of the benefits that come to us from such an agreement with Mexico.

Chairman **Gibbons**. Ambassador Hills, I am going to ask Mr. Roh to take your position because I don't want to get the President's blame for having you miss your appointment. Can we excuse you now and let Mr. Roh answer for you?

Thank you for coming. We are going to have you up for an executive session real soon.

Ambassador **Hills**. I appreciate it.

Chairman **Gibbons**. Mr. Roh, come on up and answer the questions.

Mr. Levin, you may continue.

Mr. **Levin**. Thank you.

Mr. Roh, I just think as I finish up my question, I don't think we ought to assume a model that the more, the lower end of the scale manufacturing capacity is all that is within the capacity of Mexico and that the model, the correct model always is that we will do the higher tech while the "developing country"—it is really not developing country, middle-income country—does the lower end.

You can expect from a number of us, I think the chairman of the subcommittee, but a lot of others are pushing you with this question. Will it be in our national interest in a broad sense? And show us, don't just give us an article of faith that more flow is automatically better. Though I think that that premise you can start with, and I am in favor of much more flow between our countries and throughout the world. But don't automatically assume in each case that means our improved or enhanced economic strength.

Thank you very much.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Richardson.

Mr. **Richardson**. Thank you, Mr. Chairman.

Could you discuss at this stage the two areas that might be problematical in the initial negotiations—that is, the textiles and energy? Are these the kind of arenas that might be off the table? Perhaps if you could just deal with potential areas of controversy that, as we move between now and the end of the year. Are these two likely to be some?

Mr. Roh. Well, Congressman, I certainly agree with you that those are two of the more sensitive areas. We would prefer to think that nothing is off the table at this stage where, after all, at a very early stage we think there are opportunities and mutual benefits to be had in those areas as in many others. So to knock something off the table at this stage when we are just beginning our talks and our analysis seems premature.

Mr. Richardson. Is it the Bush administration, is this a major priority for the Bush administration? That is, by that not just successfully concluding these negotiations, but getting them passed through the Congress? Where would you list it in terms of the agenda for investing capital in perhaps not this calendar year, but starting next year? Is this a serious initiative on your part that is going to require a substantial commitment?

Mr. Roh. Well, absolutely. I think it is evident from the statement of Presidents Bush and Salinas that there is a great deal of enthusiasm. We are at a very early point. We have not in terms formally initiated at this point, but there is a lot of interest.

As we go ahead, we will certainly want—if you enter into these negotiations, you certainly want them to succeed and be approved by the Congress.

Mr. Richardson. There is going to be a lot of opposition to this agreement. I think eventually it is going to pass. But there is going to be people that will say you are losing American jobs.

I have already had—since I had my initiative 8 years ago, every year I am attacked by this group that says my only objective is to open up the border so that more people can vote for me in New Mexico. This is across the board. These are very serious challenges that are going to be made to this agreement.

I would like a little bit of a stronger commitment on your part about going into these negotiations with a hope of concluding something. I think you are being a little tentative. I would like to see a stronger statement.

I am actually trying to do you a favor by asking you this question. I hope you take advantage of it because you are on the record.

Mr. Roh. Yes, sir. Well, I don't know how I can be stronger than my President, who said that they endorse the goal of a comprehensive, bilateral free-trade agreement between the United States and Mexico, and that they have, you know, are looking to forge closer links. I think you have that assurance, sir.

If I am more tentative, it may be because I am from the Northeast, and we are always more reserved. But I think there is a lot of enthusiasm on everybody's part.

Mr. Richardson. Thank you, Mr. Chairman.

Chairman Gibbons. Thank you.

Thank you very much.

Let's continue on now with the next panel. Mr. Cass, here in place of Ms. Brunsdale.

STATEMENT OF HON. RONALD A. CASS, VICE CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, ON BEHALF OF HON. ANNE E. BRUNSDALE, CHAIRMAN, ACCOMPANIED BY CONSTANCE HAMILTON, PROJECT LEADER

Mr. CASS. Mr. Chairman, members of the subcommittee, I am pleased to present the findings of the U.S. International Trade Commission study of Mexico's recent trade and investment reforms and the implication of those reforms for United States commercial interests.

With me today is Constance Hamilton, project leader for the Commission's study of this subject.

The Chairman of the Commission regrets she cannot be here today to present these findings herself. I believe the subcommittee has received copies of her written statement and request those be submitted.

Chairman GIBBONS. All that will be in the record.

If you would summarize those?

Mr. CASS. I will, indeed.

As many witnesses have noted already, Mexico for years pursued a policy of import substitution with high tariff barriers, import licensing requirements, domestic subsidies and duties based on inflated official import reference prices.

Further, in order to prevent foreign domination of the Mexican economy, the government imposed substantial restrictions on foreign investment and nationalized numerous sectors of the Mexican economy.

In part because of weaknesses that flow from this sort of insulated economy and in part because of very heavy international borrowing, the Mexican economy suffered numerous crises in the early and mid 1980's when economic growth stagnated, inflation soared to a more than 160 percent annual rate, the international debts Mexico incurred could not be serviced, and Mexico experienced both increased capital flight and worker emigration.

Since 1980, the Mexican Government has taken a number of very important steps to open the Mexican economy to trade and investment and to bring economic growth back to Mexico. They reached agreements in 1986 with the International Monetary Fund, the World Bank and commercial banks, and last year became the first country to reach a debt agreement with lenders under the Brady plan.

In addition to this, they have taken great strides in reducing the role of the central government in the economy through privatization and deregulation, and they have additionally opened their economy substantially to new foreign investment.

Of the 754 activities that comprise the Mexican economy, over 70 percent are now open to 100 percent foreign investment without restriction and an additional 40 areas of the economy are open to 100 percent foreign investment with prior government approval.

Mexico also has taken considerable strides in liberalizing its trade. It has reduced its maximum tariff from 100 percent down to 20 percent, and its average effective tariff is now merely 11 percent. The tariff limitation is even less on many of the items exported by the United States.

Their export licensing program has been scaled back substantially from 100 percent of imports to Mexico to 20 percent, and as Ambassador Hills noted, only 7 percent of U.S. exports to Mexico still require a license.

Some barriers do still remain and are of concern to a few sectors of the American economy. Notably, agriculture still requires import licenses for nearly 60 percent of the U.S. agricultural exports to Mexico. A recent GAO study reports that these constitute a substantial barrier to agricultural exports to Mexico.

Nonetheless, the overall picture that we find of United States-Mexican trade following the changes in the Mexican policies is quite positive. After a contraction of U.S. exports to Mexico during the early 1980's, they have doubled in the last 5 years and continue to increase. U.S. investment in Mexico also is increasing at quite a sharp rate over the last 5 years as compared to the previous 5-year period.

One cautionary word concerns intellectual property. As has been noted, Mexican protection of intellectual property has been faulted as not significant enough in a variety of regards. Mexico has undertaken to introduce legislation, and indeed last week did introduce legislation to protect software and sound recordings, and I understand is drafting new legislation to protect other forms of intellectual property.

The other concern that has been noted to the Commission is whether the reforms undertaken to date are going to be lasting. Most of the reforms have been accomplished by Executive order rather than by legislation. We understand that was due to the government's desire to implement reforms quickly. But some commentators have questioned whether those reforms might be reversible in the case of a political change.

That concludes these remarks, Mr. Chairman. I would be happy to answer any questions you have.

[The statement of Ms. Brunsdale follows:]

STATEMENT OF THE HONORABLE ANNE E. BRUNSDALE, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION

BEFORE THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
JUNE 14, 1990

Mr. Chairman and members of the subcommittee, my name is Anne Brunsdale. As Chairman of the U.S. International Trade Commission, I am pleased to be here today to present the findings of the Commission's study of Mexico's recent trade and investment reforms and the implications of those reforms for the United States. This study is Phase I of a two-part investigation we have undertaken at the request of the Committee on Ways and Means. Phase II, which will explore experts' views on prospects for future U.S.-Mexican trade relations, is currently underway and will be submitted to the Committee in October 1990.

The Commission's principal findings about the trade and investment reforms recently implemented by Mexico are highlighted below.

Overview

Until recently, Mexico, like many other developing countries, tried to develop its industrial sector with a policy of import substitution, rather than by attempting to promote Mexican firms that would make products to export to the rest of the world. Beginning in the late 1930s, Mexican policies protected domestic producers against competition from imports through import licensing requirements, high tariffs, and official import reference prices. These measures, in combination with large domestic subsidies, led foreign companies to construct plants in Mexico rather than serve the Mexican market with exports from plants in other countries. This policy disproportionately encouraged industries that manufactured consumer products, rather than those that would develop Mexico's raw materials or its agricultural sector. It also promoted an industrial sector that was generally inefficient and therefore unable to compete in international markets.

The Mexican Government also sought to prevent what it feared would be foreign domination of its economy by restricting direct foreign investment and foreign ownership of assets. It controlled the peso exchange rate, restricted access to foreign exchange, assumed direct control of more than 1,000 business enterprises, and established complex regulations for others.

Growth of the Mexican economy ceased in 1982. By the mid-1980s, per capita consumption had declined sharply and the country was left nearly insolvent. Capital began to leave the country as did many Mexicans.

These conditions gave rise to a dramatic reassessment of Mexico's traditional policies beginning in 1985. New agreements with the IMF, World Bank, and commercial bank creditors were obtained in 1986. As part of these agreements, Mexico agreed to major reforms of its economic policies, including reductions in tariffs and trade restrictions, liberalization of foreign investment, reductions in public spending, tax reform, divestiture of state-owned enterprises, and reform of domestic price controls.

Between 1986 and 1988, Mexico negotiated smaller agreements providing for additional loans and reduced interest on existing loans, and began to implement the promised reforms. Some of the reforms were incorporated into the Economic Solidarity Pact, which was initiated in 1987.

In July 1989, Mexico became the first country to reach a tentative new debt agreement under the Brady plan. Mexico's commercial bank creditors agreed to forgive part of Mexico's medium- and long-term debt and to reduce substantially interest rates on part of the remaining debt. Under the agreement, Mexico will also receive several billion dollars in new public and private loans and other assistance.

GATT Accession and Bilateral "Understandings"

The Mexican government acceded to the GATT in August 1986, and agreed to become a signatory to five of the Tokyo Round Codes -- licensing, customs valuation, antidumping, standards, and subsidies. It signed the first three of these on July 26, 1987, and the standards code in January 1988. The subsidies code has yet to be signed.

In addition, Mexico has signed two "Understandings" with the United States that have emphasized the importance of liberalized bilateral trade between these two nations. The 1987 Framework of Principles and Procedures for Consultation regarding Trade and Investment Relations is a landmark in the improvement of economic relations between the U.S. and Mexico. In particular, it highlights the need to eliminate nontariff barriers, the detrimental effects of protectionism, the impact of export earnings on the ability of Mexico to meet its foreign debt obligations, GATT's role in the bilateral relationship, and the increased significance of services in both countries. Prior to the Understanding, Mexico and the United States had no formal bilateral mechanism governing commercial relations.

The 1989 Understanding regarding Trade and Investment Facilitation Talks (TIFTs) represents a significant milestone for U.S.-Mexican commercial relations in several ways. First, the mandate for the TIFTs goes further than the 1987 Framework Understanding by providing for comprehensive trade and investment negotiations. Second, negotiations called for under the TIFTs will focus on specific product areas as well as cross-sectoral issues such as services, intellectual property rights, technology, investment, distribution problems, and various tariff and nontariff barriers to market access. Finally, the TIFTs provides for a major change in the methodology the two countries will use during negotiations. Binational, rather than individual, teams of government experts will gather data, perform analyses, and review information prior to the start of negotiations. These mutual study groups should facilitate a resolution of many issues before the negotiators are called to the table.

Deregulation and Privatization

Mexican policy makers view deregulation and privatization as key instruments in restructuring their economy and promoting growth. The Government's deregulation program involves the drafting and implementation of new regulations covering private businesses. The new rules are simpler, less pervasive and less rigid, and allow more room for private initiative and competition. The Mexican Government's program of privatization is designed to lower the level of government ownership of business enterprises. Mexican policy makers have stated their intention to reduce the public burden of subsidizing unprofitable enterprises and to generate revenues by the sale of state-owned entities.

Deregulation

As part of its "Program of Deregulation," the Government, through the Mexican Secretariat of Commerce and Industrial Development (SECOFI), has completed, or is in the process of preparing, deregulatory measures affecting most areas of the economy. Over 25 different areas have been or are included in this process, including agriculture, telecommunications, petrochemicals, the banking system, insurance, domestic motor carriers, fishing, technology transfer and trade secrets.

Although many of the deregulatory actions have been implemented only very recently, it is already clear that U.S. firms doing business in Mexico should generally benefit from the new regulatory environment. Mexico's deregulation policy is designed, in part, to remove the arbitrariness of governmental authorities in implementing regulations. A more transparent legal environment, coupled with a more efficient governmental apparatus resulting from the reduction in government ownership of businesses, should create a considerably better atmosphere for U.S. and other foreign firms seeking to do business in Mexico.

Likely effects of specific changes can be identified in certain cases. The new less-restrictive trucking regulations are likely to lower costs for U.S. firms operating maquiladoras in Mexico. However, the benefits of the new rules are limited by the failure to remove restrictions on operations of U.S.-owned, or other foreign-owned, motor carriers.

Mexico's deregulation should also pave the way for increased foreign participation in a number of other sectors. For example, new rules will permit minority ownership by U.S. and other foreign companies in the insurance and fishing sectors. Better opportunities for sales by U.S. agricultural exporters could result from the reorganization of Mexico's farm sector. In addition, U.S. tour bus operators are now able to develop charter tours (in conjunction with Mexican companies) throughout Mexico.

Privatization

Under its privatization program, the Federal Government has reduced its participation in some sectors and completely withdrawn from others. It has scaled down its participation in such areas as food processing, production of textiles, secondary petrochemicals, wood and paper products, construction materials, and the automotive industry. With respect to the last-named industry, the Government has sold Renault de Mexico, and has either sold or is now selling state-owned enterprises producing trucks, buses, tractors, motor, and auto parts.

In December 1982 the Government of Mexico owned 1,155 entities. As of February 1990, 801 of them had been divested or authorized for sale. The privatization process had been finalized for 619 companies and was still in progress for 182 companies. The companies that are yet to be sold are of larger size and complexity than those for which transactions have already been completed. Also, some of the candidates for privatization operate in noncompetitive markets and therefore will require regulatory, financial, and operational adjustments before being offered for sale in a competitive market.

Mexican officials have encountered difficulties in obtaining what they consider to be a fair price for a number of companies earmarked for divestiture. A notable example of a difficult privatization effort is the Compania Minera de Cananea, Mexico's largest copper company and one of the largest copper mines in the world. Private investors have been reluctant to assume the huge debts of the bankrupt Cananea.

The privatization program is providing new opportunities for U.S. investment in Mexico. For example, the group of investors that bought into the Mexican airline Compania Mexicana de Aviacion was led by the Chase Manhattan Corporation. U.S., Japanese and European investors have expressed interest in the forthcoming privatization of Telemex, Mexico's government-controlled telephone monopoly. Further, U.S. observers believe that the anticipated restructuring or elimination of Pronase, the Mexican parastatal for seed production, will provide good investment opportunities for U.S. firms with subsidiaries in Mexico as well as opportunities for export sales of seed to Mexico. Other investment opportunities should arise from Mexican Government plans to sell five fertilizer plants currently owned by the parastatal Fertimex in the near future, with some of them going to foreign investors.

Mexico's Trade Regime

Mexico reduced its maximum import tariff from a level of 100 percent in 1986 to a current level of 20 percent, well below its commitment to GATT for a maximum tariff of 50 percent. Mexico's trade-weighted average tariff is now about 11 percent -- low by developing country standards.

In addition, since mid-1985 Mexico has moved from an extremely restrictive import regime in which almost every item was subject to an import permit, to a regime in which permits are required for imports in only a few selected sectors of the economy. Requiring import licenses hinders trade because it grants discretion to the Government to approve or disapprove individual requests. Mexico continues to maintain import permit requirements for roughly 330 items. These items constitute about 3 percent of total number of Mexican tariff items but account for about 20 percent of Mexican imports. Import licenses continue to be required, for example, for oil and oil derivatives, motor vehicles, pharmaceutical products, footwear, electronic equipment, and certain agricultural products. About 59 percent of the value of U.S. agricultural exports to Mexico require import permits. According to a recent GAO report, these requirements are significant barriers to U.S. agricultural exports to Mexico.

Mexico is currently considering or is in the process of liberalizing its rules regarding the three sectors that are regulated by industrial development plans -- specifically, the automotive, pharmaceutical, and electronics sectors. The rules will open these traditionally protected sectors to foreign competition.

In 1986, Mexico enacted antidumping and countervailing duty laws. While Mexico has initiated very few countervailing duty investigations, reportedly it was the fifth most frequent initiator of antidumping proceedings during the 1987-88 period, behind the United States, Canada, the European Community, and Australia.

As would be expected, the liberalization of Mexico's trading regime has been of substantial benefit to U.S. exporters. As a result of the economic stagnation in Mexico, U.S. exports to that country fell between 1981 and 1984 by more than one-third -- from $17.3 billion to $11.5 billion. However, with the liberalization of trade, U.S. exports to Mexico began to increase, doubling in just five years to reach a level of $24.1 billion by 1989. Between the first quarter of 1989 and the same period this year, exports to Mexico rose by 7.5 percent.

The growth in trade has not been all one way. U.S. imports from Mexico have increased 45 percent from $18.3 billion in 1984 to $26.6 billion in 1989. The U.S. regularly imports more from Mexico than it exports to that country.

Foreign Investment

In May 1989, Mexico made sweeping reforms to its rules governing foreign investment. Without changing the 1973 law that significantly restricts foreign investment, Mexico has promulgated new rules that provide for greater transparency, increased foreign participation, and greater efficiency in the application process.

Among other things, the May 1989 foreign investment regulations include provisions that allow up to 100-percent foreign investment in companies in unclassified activities. The range of economic sectors expressly open to wholly foreign-ownership has been broadened significantly. Foreign investment of up to 100-percent is allowed in unclassified activities which account for 72.5 percent of the 754 economic activities that comprise the Mexican economy. Included are certain industries such as glass, cement, iron, steel, and cellulose for which administrative restrictions had previously restricted majority foreign participation. Of the remaining 207 classified activities, 40 more are open to 100 percent foreign investment with prior approval. Moreover, additional foreign participation in many of the classified categories is possible, subject to government approval, through a temporary 20-year trust mechanism.

While the new foreign investment regulations affect a wide range of activities, the implications in several areas are especially noteworthy. For example, telecommunications -- where foreign investment used to be prohibited -- is now considered a classified activity in which foreign investment is allowed up to 49 percent. Many U.S. firms have already teamed up with Mexican companies to bid on the provision of cellular telephone services and reportedly, foreign investors have already acquired a number of Mexican firms providing such services.

In an effort to deregulate the petrochemical industry and provide greater opportunities for private investment, on August 14, 1989, Mexico announced a major reclassification of petrochemicals. Under Mexican law, petrochemicals classified as "basic" can only be produced by Mexican firms, while those classified as "secondary" may be produced by firms that are up to 40 percent foreign owned. Additional foreign control is possible if firms are organized under the temporary trust mechanism. The reclassification reduced the number of petrochemicals classified as either basic or secondary. Fourteen basic petrochemicals were reclassified as secondary, reducing the list of basic petrochemicals from 34 to 20 products. In addition, the number of petrochemicals classified as secondary was drastically reduced from approximately 605 to 66 products as 539 products moved into the unrestricted category. Thus, increased opportunities were created for U.S. investment in the Mexican petrochemical industry.

As for the insurance industry, a new insurance decree lifts the prohibition on new foreign investment and raises the allowable level of foreign participation from 15 percent to 49 percent.

In December 1989, Mexico published regulations opening state banks to limited foreign participation. These regulations allowed foreign investors to obtain, under certain conditions, up to 34 percent ownership of a new class of non-voting shares. However, direct foreign participation was still prohibited and the government was still required to hold a majority of the voting stock in any bank.

However, in early May 1990, the Government proposed a further liberalization of the bank financing rules. This proposal took the form of a proposed constitutional amendment to reprivatize Mexican banks, which had been nationalized in 1982. The proposed amendment has now been enacted by both houses of the Mexican legislature and awaits the approval of Mexico's 31 states before becoming effective.

In December 1989, a new maquiladora decree significantly changed the rules relating to the sale of maquiladora products in Mexico. Under certain conditions, a maquiladora may now sell locally an amount equal to 50 percent of its total export sales during the preceding 12 months. Local sales must be in addition to the maquiladora's pre-established level of exports. Therefore, to sell on the domestic market, a maquiladora must increase its production.

The 1989 maquiladora decree included significantly streamlined administrative procedures to encourage the expansion or establishment of a maquiladora. Under the prior regulatory framework, negotiations with nine different government agencies were required. The 1989 decree created a "single window" at the Mexican Secretariat of Commerce and Industrial Development (SECOFI) to handle all administrative details. The decree also creates a more predictable environment for long-term investments in other ways. For example, the term for which maquiladora licenses are effective is now open-ended, whereas previously, such licenses (although routinely renewed) were valid for only two years. These changes should provide substantial benefits to U.S. firms that currently operate maquiladoras or that are interested in establishing new ones.

Mexican Intellectual Property Protection

Mexico still has some trade-related areas in which we can and should expect additional changes. Most notable is the protection of intellectual property rights.

Patents

Mexican law currently does not provide patent protection for a number of different products and processes that are protected in most developed nations in the world, including pharmaceutical and chemical products, medicines, beverages and food for animal consumption and other biological-activity products. Mexico promised to introduce legislation to provide immediate patent protection for these areas. However, to date no such legislation has been introduced. Nor has Mexico yet fulfilled a promise to introduce transitional patent protection for those products (such as pharmaceuticals) which are already patented in the United States but for which no patent protection is yet provided under Mexican law.

Trademarks

Mexican trademark protection has increased in the past several years in both the substantive law and in enforcement. Amendments in 1987 to the trademark law provided additional protection to foreign manufacturers. However, there remain a number of problems with the law, including requirements for compulsory licenses, requirements that trademarks be used in the exact form they are registered, the early lapse of a trademark where the holder offers no proof that the trademark has been used, and a lack of resources to process and enforce trademarks. In October 1989, the Mexican government announced it would introduce legislation to correct these deficiencies during 1990. To date no such legislation has been introduced, however.

Copyrights

Although Mexican copyright law is relatively comprehensive, it does not provide any explicit protection for software and sound recordings. Last week, legislation was introduced in the Mexican Congress to provide for larger fines and to provide explicit protection for software and sound recordings. The problem of enforcement of piracy remains but has improved during the past several years.

Trade Secrets

Current Mexican trade secret protection is minimal. During our investigation, numerous Mexican and U.S. attorneys and businessmen expressed their dismay at the lack of protection for trade secrets in Mexico and stated that it definitely impacted the level of foreign investment. Mexico has promised to introduce legislation to improve their trade secrets law, but no such legislation has been introduced as of yet.

Phase II, Prospects for Future U.S Mexican Relations

The second phase of the Commission's investigation will provide a summary of experts' views on possibilities and opinions for the future direction of the bilateral relationship. During this part of the investigation, the Commission is seeking the views of recognized authorities and officials who are particularly knowledgeable in the area of U.S.-Mexican relations.

We have identified almost 500 experts, including U.S. and foreign trade negotiators and other government officials, U.S. and foreign private sector representatives active in bilateral business or trade, labor representatives, academicians, and executives of industry and other nongovernmental associations. All persons on our list have been contacted and asked to submit their written views.

Direct interviews are being conducted with a number of the experts. The participants are asked to provide frank, personal opinions rather than official positions of the governments, agencies, associations, or firms by which they are employed.

In May, the Commission held two hearings in connection with this phase of the investigation, one in Las Cruces, New Mexico, and the other in Tucson, Arizona. An additional hearing will be held next month in McAllen, Texas. At the hearings already held, we heard from over 40 witnesses, representing a cross-section of interests. Most agreed that freer bilateral trade would be mutually beneficial, and that although certain industries on both sides of the border could be negatively affected, the overall benefits to both nations would likely outweigh the costs. Several witnesses disagreed with that perspective, however. Witnesses representing labor organizations, pointing out the wage differential between the two countries, argued that a free trade pact could negatively affect U.S. labor interests. Witnesses representing certain U.S. agricultural interests warned that an FTA would be detrimental to U.S. producers of certain crops.

We will continue to collect views and opinions on this very timely issue and look forward to conveying our results to you in October.

Conclusions

In conclusion, permit me to summarize what I believe we have learned from our investigation to date. Mexico has substantially deregulated its economy in recent years and has reduced the role of the government as the owner of productive resources. There has also been a substantial liberalization of Mexico's restrictions on trade and foreign investment. These changes have provided significant benefits to U.S. firms and additional benefits should result in the future.

The benefits of Mexico's liberalization are also beginning to show up in the performance of the Mexican economy. In 1986, Mexican gross domestic product (GDP) measured in constant pesos was 2.5 percent lower than it had been in 1981. However, in the succeeding three years, Mexican GDP rose steadily, if not at a particularly rapid rate -- averaging a 2 percent rate of increase across those three years. In addition, the rate of inflation in Mexico declined from 159 percent in 1987 to 20 percent last year and the public sector deficit as a percent of GDP fell from 16 percent in 1987 to 5.9 percent in 1989.

However, there are a few caveats that should be expressed. While I believe that Mexico's program of deregulation and privatization should prove beneficial to Mexican citizens and provide new opportunities for U.S. investors, it is important to note that the Mexican government still maintains significant limitations on foreign participation in many cases. For example, under both the Mexican constitution and Mexican law, U.S. trucking firms are prohibited from operating in Mexico. Foreigners are only allowed to participate as minority owners in some sectors, fishing and insurance, for example. At least until a recently proposed amendment to the Mexican constitution is ratified, foreign involvement in Mexican banking is limited to minority ownership of non-voting shares. Thus, in many cases, the actions that have been taken should not be confused with full privatization as understood in the United States.

In addition, most of the deregulatory changes have been enacted under executive decree rather than by changing the underlying laws. This increases the concerns of many observers that the changes could be reversed if the political winds in Mexico begin to blow in a different direction. Most observers of the Mexican scene also believe that political change in Mexico has not kept pace with its economic reforms. These concerns may be restraining the necessary revival of investor confidence and thus be limiting the benefits that could otherwise be expected to flow from the Mexican actions.

This concludes my remarks. I would be happy to answer any questions you may have.

Chairman **Gibbons**. Mr. Guarini.

Mr. **Guarini**. Do you have an opinion in the answer to your question as to whether or not those reforms are reversible? If the political instability exists, do we know there will be deregulation of their various institutions? Do you think that capital will be attracted knowing that there is not a reversible position in regards to the reforms that you mentioned?

Mr. **Cass**. Well, the capital intake of Mexico has increased substantially over the last 5 years. It has plateaued over the last 3.

Mr. **Guarini**. Is that money that fled out coming back, or is that new entrepreneurial capital being invested into the country?

Mr. **Cass**. There is no way completely to disaggregate the money flows. That is money from foreign sources into Mexico.

The plateauing of that investment figure certainly reflects a belief on the part of investors that, although improvement is continuing, they would like to see additional signs of long-term stability in those reforms.

As Ambassador Hills noted, an agreement with the United States on a broad trade framework certainly would add to the stability of those reforms.

Mr. **Guarini**. So the reforms—Mr. Salinas, the President, is popular but the reforms don't have full public support, do they?

Mr. **Cass**. The reforms do not have sufficient support to clearly be passed by the legislature across the board. Many of them, I suspect, would be able to be passed by the legislature, but there is no way to say that all of them would be.

Mr. **Guarini**. Have the restrictions of foreign capital and the insistence on having 51 percent of national-owned stock, been repealed? Is there a path open with incentives for capital to flow into Mexico and be able to expand its industry?

Mr. **Cass**. Yes, indeed. For most of the areas of Mexican industry now, there is an opportunity to have 100 percent foreign ownership without the approval of the Mexican government.

Some areas do require that approval. My understanding is that that approval has been routinely given to date.

Mr. **Guarini**. That is case by case?

Mr. **Cass**. That is case by case.

Mr. **Guarini**. Therefore, big corporations in the United States and the world can benefit, but individuals would have difficulty trading into Mexico at this time unless the laws were more extensively changed; is that correct?

Mr. **Cass**. I believe that even small enterprises can go in and set up in over 70 percent of the areas of their economy without any restriction.

Mr. **Guarini**. But there are still many restrictions on small American companies that don't have the muscle that big multinational companies have in trying to locate themselves in Mexico today?

Mr. **Cass**. There are certainly restrictions in many areas, not only for small but also for large companies. The Mexican economy still has constraints on investment in certain areas and on operation in those areas.

Mr. **Guarini**. Assuming that was part of the negotiation package, does the President of Mexico have the authority, or would he have to go to his Congress and get their consent, a measure which would take political strength in order to achieve any kind of a trade agreement that we would negotiate?

Mr. CASS. My understanding is that there are three different ways that reform can be accomplished in Mexico in different areas. Some reforms can be undertaken by Executive order. Some require legislation. There are some areas that require constitutional change.

I believe that the Mexican constitution requires government control over banking and that proposals to privatize the banks in Mexico, thus, would require constitutional amendment.

Mr. GUARINI. Is it only banking, to your knowledge? Do you think it is more wide than that?

Mr. CASS. There may be others. Banking is the one I know of for sure.

Mr. GUARINI. There could be a very difficult road in getting all of the legal barriers out of the way, in making real a trade agreement with the United States? We have fast tracks in the United States. We have Congress in the United States working in a very sophisticated but quick manner.

Assuming what you say is so, we would have to go through a variety of operations in Mexico in order to get a free-trade agreement that would be truly beneficial passed?

Mr. CASS. I am certain that there will be a number of obstacles politically in both our country and in Mexico.

Mr. GUARINI. And legally, too?

Mr. CASS. And legally. To implementing such an agreement.

At the same time, the indications we have received in testimony before the Commission are that there is quite strong support on both sides of the border for such an agreement.

Mr. GUARINI. Thank you very much.

Mr. CASS. Thank you.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. I have no questions.

Chairman GIBBONS. Mr. Richardson.

Mr. RICHARDSON. Thank you, Mr. Chairman.

I want to commend you and the work that the Commission is doing. You held a hearing in New Mexico. I think the job of the Commission here is as much fact gathering as also sharing with the American public, the American business community, labor, the fruits of your research.

I see your role as also being a valuable educational process. I hope you continue that. I think that it is essential that nobody be able to say, come a year from now, that not enough information, not enough opinions have been solicited.

I see the number of entities that you have asked your opinion on. Could you just briefly describe to us—I would have asked Ambassador Hills, but she has left—the Mexican mechanism that is similar to yours? How will it work? Are they gathering the same kind of information?

Is their trade negotiations and trade-gathering information coming primarily out of the Commerce Department there, Minister Serra's operation? Is it foreign relations or is it both? Are they going to be setting up a special negotiating team?

My main question to you is, who will be gathering the information on their industries that you are doing so for this country? What entity? Is there any specific mechanism, to your knowledge?

Mr. CASS. First, Mr. Richardson, let me thank you for your compliments to the Commission.

Second, as to the mechanism in Mexico for collecting information, I do not know whether anyone other than SECOFI is engaged in that process. If you would like, we could find out and get that information to you.

Mr. RICHARDSON. I would appreciate that.

Mr. Chairman, thank you.

[The information follows:]

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

June 26, 1990

Honorable Bill Richardson
U.S. House of Representative
Washington, DC 20515

Dear Congressman Richardson:

At the June 14th hearing before the House Ways and Means Subcommittee on Trade, you asked Vice Chairman Ron Cass which agency within the Mexican Government is responsible for collecting information and performing other analyses in preparation for U.S.-Mexican free trade area discussions. According to Mr. Miguel Leaman, Minister for Trade Affairs at the Embassy of Mexico, the office of the Under Secretary for Foreign Trade within the Secretariat of Commerce and Industrial Development (SECOFI) is responsible for this type of preparatory analysis.

We have enclosed for your information a compilation of reports and other publications of the Commission, and a copy of the Phase I Mexico report.

If we can be of further assistance, please don't hesitate to call on us.

Sincerely,

Anne Brunsdale

Anne Brunsdale
Acting Chairman

Enclosures

[THE ENCLOSURES TO THIS LETTER ARE BEING RETAINED IN THE COMMITTEE FILES]

Chairman **Gibbons**. Thank you very much, Mr. Cass.

We next have Mr. John Avery, who is the chairman of the board of Johnson & Johnson.

Your colleague, Mr. Robinson has arrived. He is at the airport. He will be along in a minute. We will work him in.

I don't know anybody who has bound up more wounds than Johnson & Johnson. We are very glad to have you here.

STATEMENT OF JOHN E. AVERY, COMPANY GROUP CHAIRMAN, JOHNSON & JOHNSON, ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. **Avery**. Thank you very much. I appreciate the opportunity to appear before the committee, Mr. Chairman. I would like to summarize.

Chairman **Gibbons**. Yes, sir. The statement in its entirety will be in the record, Mr. Avery.

Mr. **Avery**. I would just like to make a few comments, the more critical comments in my statement.

As you know, Johnson & Johnson is a worldwide health care company. I am here today to testify on behalf of the Emergency Committee for American Trade in support of the moves to remove barriers to international trade and investment between the United States and Mexico.

We welcome the June 10 agreement between Presidents Bush and Salinas to work toward a comprehensive bilateral trade agreement. Economic, cultural and political disparities between ourselves and Mexico are going to make negotiations difficult. It will require patience and close collaboration between business and government in both countries to make such an agreement a reality.

While supportive of market-opening measures between the United States and Mexico, we would hope that ongoing discussions and negotiations for a possible bilateral free-trade agreement will not detract from the paramount task of successfully concluding the Uruguay round of multilateral trade negotiations this year.

At Johnson & Johnson, I have responsibility for Johnson & Johnson de Mexico as well as for Johnson & Johnson's operations throughout Latin America and the Caribbean area. Nearly all of my 28 years with Johnson & Johnson have been involved in Mexico and Latin America.

In the mid-1930's, Johnson & Johnson established its first company in Mexico. We now have five operating units in Mexico, employing more than 4,500 people. Included in that number are cross-border maquiladora operations. All segments of our business are represented in our Mexican production.

Although Mexico ranks third behind Canada and Japan in U.S. exports, trade and investment between our nations have never reached the full potential that our geographic proximity might warrant.

We are witnessing dynamic change in the world and Mexico is a part of it. Mexico has been in the forefront of some of the changes which we are now witnessing in countries like the Soviet Union, East Germany, Poland, Hungary, Romania, Czechoslovakia, and Nicaragua.

It is most appropriate that this hearing is held just after the third visit of President Salinas to the United States since his inauguration less than 18 months ago. In September 1986, Mexico was admitted to the GATT largely as a result of economic changes advocated by President Salinas. Under his leadership, Mexico has substantially reduced its import barriers, both direct and indirect, has modified in a positive fashion its foreign investment regulations, including reduction of requirements for local equity participation, and has eliminated price controls on a vast array of products.

It is clear that Mexico is striving hard to become a competitive player in the world economic marketplace.

We, therefore, welcomed the call from President Salinas in late May that the United States and Mexico should enter free trade talks. We were particularly heartened that Mexico's Congress approved this move, a major reversal of national policy.

In May 1989, Mexico's inadequate protection of intellectual property rights resulted in its inclusion in the Priority Watch List issued in accordance with the special 301 provisions of the 1988 U.S. trade law. Therefore, we in the business community took as a very positive sign the Mexican Government's announcement in January of 1990 of a national program of industrial modernization in foreign commerce for 1990–94. That program is to include new patent law protection for both product and process patents for a term of 20 years from the time of filing, protection for pipeline products and strengthening of protection of trade secrets and trademarks.

I was in Mexico in February. At that time I had the opportunity to meet with President Salinas and directed a question to him on this subject. At that time we received assurances that we would see a patent law in Mexico, long overdue.

The Commerce Minister, Mr. Serra, subsequently announced that this initiative would be submitted to the Mexican Congress this year with legislative enactment of the program expected in 1991. Encouraged by these announced intentions, Mexico has been removed from the Priority Watch List.

Our recent experience in negotiating the Canadian-United States Free-Trade Agreement is vivid in our memories. Despite many of the commonalities which the United States shares with Canada, it nevertheless took more than 3 years to negotiate this trade agreement with our most significant trading partner. We can, therefore, anticipate that it will take more than a magic wand to initiate and conclude a comprehensive trade agreement with Mexico.

As mentioned at the beginning of my statement, ECAT welcomes the United States-Mexico initiative toward a mutual opening of each other's markets. We share the concerns recently raised by Ambassador Carla Hills that close consultations are needed with the private sector, with labor, and with the Congress before the United States embarks on actual free-trade negotiations with Mexico.

ECAT supports the cautions raised by Trade Representative Hills. However, the opportunity is ripe for the United States to seize this special moment for enhanced trade and investment negotiations with Mexico. Both of our nations' economies would benefit from a new economic regime between us and the competitive stature of all of us in North America would certainly be improved.

ECAT hopes, therefore, that this committee will support the call of the two Presidents for a comprehensive United States-Mexico free-trade agreement and that you will encourage your congressional colleagues to support them as well.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF JOHN E. AVERY
JOHNSON & JOHNSON

Mr. Chairman.

I am John E. Avery, a Company Group Chairman of Johnson & Johnson, the worldwide health care company. I am here today to testify on behalf of the Emergency Committee for American Trade (ECAT) in support of moves to remove barriers to international trade and investment between the United States and Mexico.

We welcome the June 10, 1990 agreement between Presidents Bush and Salinas to work toward a comprehensive bilateral free trade agreement. Economic, cultural and political disparaties between ourselves and Mexico will make negotiations difficult and will require patience and close collaboration between business and government in both countries.

While supportive of market-opening measures between the United States and Mexico, we would hope that ongoing discussions and negotiations for a possible bilateral free trade agreement will not detract from the paramount task of successfully concluding the Uruguay Round of multilateral trade negotiations this year.

At Johnson & Johnson, I have responsibility for Johnson & Johnson de Mexico, as well as for Johnson & Johnson's operations throughout Latin America and the Caribbean area. Nearly all of my 28 years with Johnson & Johnson have been involved in Mexico and Latin America.

Johnson & Johnson is the world's largest health care company with 1989 sales in excess of $9 billion dollars. Its more than 83,000 employees are involved in operations in 55 nations. It operates three segments of business: Consumer Products, Pharmaceutical Products and Professional Products.

Johnson & Johnson established its first company in Mexico in 1936. We now have five operating units in Mexico, employing more than 4,500 people. Included in that number are cross-border maquiladora operations. All segments of our business are represented in our Mexican production.

Johnson & Johnson has been a member of ECAT for more than one dozen years. ECAT's 65 member companies employ more than 5 million people and have worldwide sales in excess of $1 trillion dollars. Many ECAT member companies have operating units in Mexico. Thus, ECAT's and Johnson & Johnson's interest in trade negotiations with Mexico are based on economic self-interest as well as on a recognition of the general importance of the U.S.-Mexican relationship.

Although Mexico ranks third behind Canada and Japan in U.S. exports, trade and investment between our nations have never reached the full potential that our geographic proximity might warrant.

We are witnessing dynamic change in the world and Mexico is a part of it. State controlled economies that were once so foreign to our own are moving toward market-orientated economic policies, modeling themselves after the American experience.

Mexico has been in the forefront of some of the changes which we are now witnessing in countries like the Soviet Union, East Germany, Poland, Hungary, Romania, Czechoslovakia, and Nicaragua.

It is most appropriate that this hearing is held just after the third visit of President Salinas to the United States since his inauguration less than eighteen months ago. In September 1986, Mexico was admitted to the GATT largely as a result of economic changes advocated by President Salinas, who was then the Mexican Secretary for Budget and Planning. Under his leadership, Mexico has substantially reduced its import barriers, both direct and indirect, has modified in positive fashion its foreign investment regulations, including reduction of requirements for local equity participation, and has eliminated price controls on a vast array of products. Today, 65% of all foreign investment in Mexico originates in the United States, although there are still some areas which remain closed to majority foreign ownership, such as telecommunications, auto parts, and petro-chemicals. Hopefully, these sectors too will be liberalized through the ongoing negotiations.

Under the administration of President Salinas, there have been other significant improvements in the Mexican economy. Domestic subsidies have been reduced. State enterprises have been sold or are on the auction block. Mexico's foreign debt has been renegotiated and significantly reduced. Its budget deficit has been cut to the lowest level in a quarter of a century, and its tax system has been overhauled. It is clear that Mexico is striving hard to become a competitive player in the world economic marketplace.

We, therefore, welcomed the call from President Salinas in late May that the United States and Mexico should enter free trade talks. We were particularly heartened that Mexico's Congress approved this move, a major reversal of national policy. Unquestionably, the bilateral talks of recent years between Mexico and the United States have been leading toward this possibility.

In 1987, the United States and Mexico entered into an understanding on a "Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations." This was the first such arrangement to cover U.S.-Mexico commercial relations in our history. The framework established a consultation mechanism for resolving trade issues, set up work groups to discuss specific problem areas and provided for plenary sessions to address a broad agenda of trade and investment issues, the next of which will be held in the Fall of this year.

In October 1989, at the time of the United States-Mexican Presidential Summit, the two governments agreed to a mandate for "Trade and Investment Facilitation Talks" aimed at possible negotiations in specific product areas, such as agriculture, transportation and technical assistance.

In May 1989, Mexico's inadequate protection of intellectual property rights resulted in its inclusion in the "Priority Watch List" issued in accordance with the "Special 301" provisions of the 1988 U.S. trade law. Therefore, we in the business community took as a very positive sign the Mexican government's announcement in January of 1990 of a National Program of Industrial Modernization in Foreign Commerce for 1990-94. That program is to include new patent law protection for both product and process patents for a term of 20 years from the time of filing, protection for pipeline products and strengthening of protection of trade secrets and trademarks.

Mexican Commerce Minister Serra thereafter announced that this initiative would be submitted to the Mexican Congress this year with legislative enactment of the program expected in 1991. Encouraged by these announced intentions, Mexico was removed from the "Priority Watch List."

In light of the critical importance of intellectual property rights protection, the U.S. business community was most encouraged when U.S. Trade Representative Hills, in preparation for her first trip to Latin America, urged the countries in that area to provide better protection for foreign intellectual property. She expressed the view that unless they did so no one would be willing to transfer technology to them and that they would then fall behind in their efforts to become significant players in the competitive world market place. Apparently, the government of Mexico anticipated her call and has already begun to take positive actions in this direction.

Obviously, our recent experience in negotiating the Canada-U.S. Free Trade agreement is vivid in our memories. Despite many of the commonalities which the United States shares with Canada, it nevertheless took more than three years to negotiate this trade agreement with our most significant trading partner. We can, therefore, anticipate that it will take more than a magic wand to initiate and conclude a comprehensive trade agreement with Mexico.

It is obvious that Presidents Bush and Salinas recognize the difficulties that lie before them and their negotiators in developing a comprehensive bilaterial economic package. It is also encouraging, however, that they are willing to confront the risks and proceed toward a free trade agreement.

As mentioned at the beginning of my statement, ECAT welcomes the United States-Mexico initiative toward a mutual opening of each other's markets. We share the concerns recently raised by Ambassador Carla Hills that close consultations are needed with the private sector, with labor and with the Congress before the United States embarks on actual free trade negotiations with Mexico.

We understand that House Agriculture Committee Chairman Kika de la Garza is expected to propose six months of preliminary talks with Mexico prior to the initiation of formal negotiations for a comprehensive economic agreement. He is also expected to propose that formal negotiations not begin until after the Uruguay Round has been concluded.

ECAT supports the cautions raised by Trade Representative Hills and Chairman de la Garza. However, the opportunity is ripe for the United States to seize this special moment for enhanced trade and investment negotiations with Mexico. Both of our nations' economies would benefit from a new economic regime between us and the competitive stature of all of us in North America would certainly be improved.

ECAT hopes, therefore, that this Committee will support the call of the two Presidents for a comprehensive United States-Mexico free trade agreement and that you will encourage your congressional colleagues to support them as well.

Thank you very much.

Chairman GIBBONS. Thank you. I appreciate your bringing not only the experience of your own company but of the very fine organization that you represent.

Let's go now to Mr. Robinson.

We welcome you here. We gave Mr. Avery a little head start on you. We realize your time schedule is pretty tight.

STATEMENT OF JAMES D. ROBINSON III, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN EXPRESS CO., AND CHAIRMAN, INTERNATIONAL TRADE & INVESTMENT TASK FORCE, THE BUSINESS ROUNDTABLE

Mr. ROBINSON. Thank you very much, Mr. Chairman. I am always glad to give a head start to such a successful person. We are saying the same thing.

I chair the Business Roundtable's Task Force on International Trade, and so this is a welcome opportunity to share those views. And a special thanks to you, as always, to your committee for holding such timely hearings and for the initiative that you take across the board on trade matters.

With the statement by the two Presidents on Monday calling for a free-trade agreement negotiation and for the ministers to begin the preliminary work to put together framework, et cetera, we are here at the Roundtable to applaud that and to support it as well.

President Salinas, as you know, addressed the Roundtable's annual meeting on Monday. In his speech, he emphasized his strong commitment to continuing to liberalize the Mexican economy and for closer economic cooperation with the United States.

With your permission, I would like to have President Salinas' speech to the Business Roundtable included in the record of this hearing.

Chairman GIBBONS. I think it would be a good idea. Without objection, so ordered.

[The speech follows:]

Address by the President of Mexico, Carlos Salinas de Gortari, during the dinner given in his honor by the members of the Business Round Table

Washington, D.C., June 11, 1990

Mr. Edmund T. Pratt,
President of Business Roundtable;

Distinguished Chief Executive Officers and Members of this Association;

Distinguished Guests from the Congress and Government of the United States;

Ladies and Gentlemen:

It is a great pleasure for me to address such a distinguished group of businessmen. For almost two decades, Business Roundtable has not only concerned itself with the important economic problems of the moment, but has also given consideration to broader views of world events and their possible developments. I come before you at a time when Mexico is undergoing far-reaching changes on which I would like to comment today, and when it is experiencing a renewed optimism which I would like to share with you.

Recently, the world has witnessed surprising changes of a magnitude that dazzles the imagination, but the direction they may take in the future is unclear. The end of the century will go down in history as a maelstrom that shook the foundations of many practices and beliefs whose stability had endured for decades on end. Politically, the end of the cold war, the establishment of new alliances, the changes in Eastern Europe and the emergence of new democracies in Latin America and other regions of the world outline an agenda radically different from that of the past decade. In the economic sphere, new financial and technological innovation centers, the globalization of capital and commodity markets and the formation of new regional economic blocs are stepping up competition and heightening interdependence among nations and among enterprises. A great revolution in knowledge and technology is altering production, consumption and even lifestyles. Many nations are beginning to modify their economies, their political institutions and their relations with other nations in order to cope with these dynamic developments. The magnitude of changes in Mexico forms part of this great world transformation. To the south of your border, a transformation of major proportions and lasting consequences is taking place. Determined as we are to respond to the people's needs and demands, both old and new, and convinced that only through change can we accomplish this end and ensure our active participation in the new makeup of the world, we have already initiated far-reaching modifications in our economic structures and in our political practices. Mexico is going to take advantage of the opportunities that the world offers today because doing so is essential to achieving justice for Mexicans, and it is going to seek agreements to reduce the risks involved because they are essential to the viability of our relations with other nations.

Competition for markets is feeling the impact of the emergence of regional economic blocs that may be distinguished by differences in the form and objectives of their integration. The ambitious integration project of Europe in 1992 also envisages the free mobility of production factors, currency unification, a supranational parliamentary organization and growing military cooperation within the framework of the redesigning of the region's own security system. The Pacific Basin Countries are rapidly advancing toward the complementarity of their economies that is intended to result in an impressive capacity for the export of goods and services. Canada and the United States of America have signed a major agreement that is limited to trade and investment matters, and is already beginning to have a decisive impact on the dynamic evolution of economic relations between the two countries. All of these blocs may be true poles of development, but, at the outset, the may also become fortresses that delay and increased liberalization of the trade in goods and services.

The Latin American countries, for their part, cover an area of 21 million square kilometers and are richly endowed with the resources indispensable for sustained development. The region also constitutes a potential market of 400 million inhabitants. With a take-off of their economies and with concrete trade agreements, the contribution that these countries could make to a reactivation of the world economy based on a substantial increase in international trade and investment flows would certainly not go unnoticed.

Faced with these new historical circumstances of readjustment of production forces and markets, Mexico does not want to be late for the world's appointment with the twenty-first century. At the proper moment and by its own volition, my country decided to summon it strength and renew its pride. The objectives lie in our history, in our adherence to the values taught by our traditions and by the cultures that have shaped us. The strategy is the nation's modernization; the capacity to grow and open Mexico up to competition, to strengthen social equality, and to create new forms of political consensus and balance based on respect and shared responsibilities. It could not be otherwise for a nation with the strength and tenacity of the Mexican people.

Let us recall that the crisis years showed that the development model in force for several decades, which had been successful for more than a quarter of a century since World War II, had fulfilled the purpose for which it was designed and was exhausting its positive effects.

Domestically protectionist and based on the State's capacity to faster growth and provide public services, Mexico's strategy had made it possible to build an important industrial plant, promote major social organizations and significantly raise the population's levels of education and health. Real wages in Mexico form 1954 to 1976 rose steadily from year to year and at the same time shaped a vigorous domestic market. But this model of import substitution and increasing State ownership abandoned its reliance on internal savings and productivity and became increasingly dependent on external credit.

The impact of the fall in oil prices at the beginning of the last decade, negative terms of trade, high international interest rates and the overwhelming burden of excessive foreign indebtedness testified to the depth of the crisis. The past decade was marked by a grave financial imbalance, as well as growing rates of inflation and, consequently, by the search for new external credits. The crisis was in fact affecting the productive structure and the growing State participation in the economy. At the same time, population growth rates remained high, increasing the need for employment and services. Change, therefore, was no longer viewed as an option, but as an absolute imperative for survival.

Accordingly, Mexico has embarked upon a comprehensive modernization. We are moving away from virtual one-party rule towards a competitive multi-party system. This process has been peaceful and stable. New consensus among the political parties has resulted in amendments to articles of the Constitution dealing with electoral matters that guarantee more transparent election processes, greater responsibility and more widespread mutual acceptance of results. Furthermore, the government of Mexico has redoubled its efforts to ensure the rule of law in its own actions and its fight against crime and impunity, particularly that connected to drug-trafficking. Thus we guarantee the freedoms of Mexicans broaden their opportunities and ensure the free exercise of their rights of assembly, expression, belief, travel, industry or profession. These new processes and attitudes are perhaps less notable than the economic changes, but are no less important. Change in Mexico is taking place with more freedom and democracy, not less. Therefore, debate has become more heated, and different positions have found more channels of expression. This is a sign of expanding democracy, which parallels the process of economic restructuring. We are moving forward on all fronts, and at the pace the people wants and allows, because we want, above all, to maintain political stability and social peace.

The challenge faced by the Mexican economy is to grow and to do so in a lasting and sustained manner. Our country has almost 85 million inhabitants and a further 10 million will join us during the course of this administration. They will demand employment, services and opportunities in addition to those that already exist. Thus, there is no time to lose; growth is our only option. For Mexico to regain its growth we had to stabilize the economy and, at the same time, to modernize the industrial plant. Stabilizing the economy has been based on an orthodox policy: strict fiscal discipline, a sharp reduction in the excessive transfer of resources abroad and an internal agreement, known as the Pact, to wage an in-depth fight against inflation.

Results are encouraging. The public sector deficit, which reached 16 percent of GDP in 1987, has been reduced by almost two-thirds, and we shall lower it to about one percent of GDP this year, its lowest level in a quarter of a century. The agreement reached with international banks was timely in the international context of change, and satisfactory for Mexico in that it enabled us to reduce the debt by the equivalent of 20 billion dollars. However, we appreciate its benefit not only for the direct contribution it makes to the balance of payments, but also for its indirect effects: on domestic confidence repatriation of capital and growing foreign investment, and a drastic drop in domestic interest rates.

Discipline in public finances and a timely, satisfactory renegotiation of the foreign debt have found in the agreement between the productive sectors and the government -the Pact- an effective instrument to contain price rises flexibly and prevent supply shortages. The Pact has helped to cut back inflation from almost 200 percent in 1987 to around 20 percent at present. But we are not satisfy with the progress we have made so far. Our fundamental goal is to reach single-digit levels of inflation comparable to international levels.

Stability, in and of itself, does not guarantee growth. That requires modernizing the productive apparatus. We therefore set ourselves to internationalize our economy, deregulate certain sectors of production and services, promote foreign investment and technological innovation, and boost our exports.

In a very brief period, unilaterally and for internal reasons, we opened up our economy to international competition. We needed the arbitrage of domestic prices to increase the efficiency and competitiveness of our enterprises and support efforts against inflation. We eliminated most non-tariff restrictions and lowered import tariffs from 100 percent or more to a weighted average of less than 10 percent. Mexico, one of the most closed economies in the world a few years ago is now one of the most open. At the same time, we have deregulated sectors of the economy such as transport and telecommunications, cutting costs, raising the quality of services and encouraging competition.

Due to its capacity to generate foreign exchange and well-paid sources of employment, and to ensure access to state-of-the-art technology and foreign markets, my administration is promoting foreign investment. A new set of regulations is simplifying investment criteria and procedures, ensuring greater certainty, continuity, clarity and security to potential investors, and opening up new areas of economic activity to foreign investment. Today, more than two-thirds of the economy is open to and is seeking foreign investment. Since May 1989, when we changed our foreign investment regulations, we have secured nearly 2.5 billion dollars, and we expect more this year.

Promoting our non-petroleum exports has been a major challenge that has shown significant progress. Less than a decade ago, crude oil exports accounted for 70 percent of our exports. They now amount to just 30 percent. A shared effort between government and businessmen to examine domestic obstacles and unite in foreign negotiations is strengthening Mexico's new impetus and its new export culture. We are therefore seeking to reach agreements with nations and blocs of nations that will afford reciprocity for Mexico's unilateral opening-up and recognition for its efforts. In GATT negotiations in particular, Mexico has sought agreement to neutralize non-tariff barriers and reduce tariffs, ensure adherence to negotiated rules, and eliminate subjective interpretations that in fact lead to new forms of protectionism.

The economic transformation and the modifications in Mexico's political institutions and practices would have been impossible without a significant reform of the State. The fulfillment of its constitutional obligations, clearer actions that are more closely attuned to the interests of the general population, especially those with the fewest resources, efficiency and concerted agreement with those who are affected by government decisions and putting an end to impunity, have entailed an in-depth review of the State's structure and its role. Therefore, an important part of this reform has been stricter observance of the law and the establishment of effective agencies for the pursuit of criminals such as drug-traffickers. This has been a long-standing demand of the people.

Mexico has many deficiencies in services, food supply, health care, education, housing and urban services. Among rural and urban communities, the demand I hear during the visits I make every week is not to increase the number of public enterprises but to give more attention to those basic needs. Thus, a government that owns so many properties in a country with so many needs is inadmissible. My administration has therefore sold, merged or liquidated enterprises that are not deemed of strategic or priority importance. This is the case with steel companies, airlines, the telephone company and the commercial banks. The resources we obtain from the privatization of such enterprises are channeled to resolving social demands. Thus, without paternalism or populism, the government is promoting community involvement in channelling part of those resources into fulfilling the priority need of justice for those Mexicans who have the least and who are making such a great effort. We have called this program Solidarity. It is not a gift. It means sharing problems and solving them together. The people are aware that a less proprietary but more responsible State means greater and more effective well-being. The social consensus in Mexico is that these government policies should be permanent in nature. That is why we shall persist in applying them.

Distinguished businessmen:

Geographic necessity made my country a bridge between two realities in a single hemisphere, a crossroads to link trade in goods and services, and to serve as well as a meeting place for different ideas and views of the world. We are aware of the challenges and also of the opportunities, many of them unsuspected until now, that are opening up for our countries.

Mexico offers a climate of economic stability and we can now congratulate ourselves on having achieved an economic growth rate of around 3 percent which, for the first time in the last ten years, is higher than the rate of population growth. All of this, coupled with the strength of our institutions, the reliability and consistency of our policies and the natural and cultural wealth of our territory and our history, make Mexico a place where opportunities for investment and trade are multiplying.

In our dealings with the United States of America, we aspire to a more fruitful relationship between our peoples, our governments and the business sectors of both nations, as befits two countries sharing an extensive border that registers nearly 200 million annual crossings. Mexico holds third place in the United States' export market, and carries out 65 percent of its own trade with its neighbor. After Japan and Canada, Mexico is in fact the United States' most important trading partner, as shown by the vigorous exchanges between our nations, which currently amount to 50 billion dollars.

We now have an Understanding to Facilitate Trade and Investment, which served as the framework for the most recent round of negotiations aimed at making progress in the different sectors that comprise our bilateral relations. A number of satisfactory results have so far been achieved, especially as regards the marketing of iron and steel products and textiles; intellectual property rights; agricultural trade, and federal motor transport in border areas.

Nevertheless, although in 1989 the value of total trade increased by five billion dollars over the previous year, our trade balance decreased from a surplus of over 900 million dollars for Mexico to a deficit of nearly 100 million dollars. This was due to a 26 percent increase in Mexican imports basically derived from advances made in consolidating the liberalization of the Mexican economy.

After extensive consultations carried out by the Senate of the Republic, we intend to begin the preparatory work prior to negotiations for a wide-ranging free-trade agreement between Mexico and the United States. We need our exports to have stable, secure access to the U.S. market, in reciprocity for the liberalization that Mexico has already carried out and taking into consideration the different levels of development of both countries. The most important immediate result will be to increase trade and investment flows between both nations. We must stress the significance of such an agreement in raising the international competitiveness and well-being of our countries within the context of world change and particularly with regard to the formation of the European bloc and the economic cooperation of the Pacific Basin countries.

There is a certain uneasiness in the United States concerning loss of jobs for Americans and migration flows from Mexico that could result from a free-trade agreement. In my opinion, this uneasiness is unfounded. In Mexico we seek to export goods, not labor. To date, the lack of opportunities in Mexico and better paid jobs on the other side of the border have been the main driving forces behind Mexican migration. I am convinced that greater access for Mexican goods to the United States market and major investment in Mexico will produce better job opportunities in my country, together with a lesser and more orderly flow of workers, in line with the numbers that the American market actually needs and will simultaneously improve the protection of the human and labor rights of migratory workers. The answer does not lie in building new walls, but in tearing down those that still exist.

To assume that the creation of new jobs in Mexico will be attained at the expense of the American worker is to ignore Mexico's enormous potential as a market for United States exports and the complementarity of our economies. This will create jobs in Mexico and in the United States as well. Of course, the attraction exerted by the Mexican domestic market will depend on its capacity to recover its purchasing power, and that will depend on consolidation of the economic program to which we are committed.

The complementarity of our two economies is of strategic importance. Japan's success has been owed in part to its incorporation of its neighbors into production processes in a way that goes beyond mere trade relations. This has ensure their strong international competitiveness. For the European Community, the countries of Eastern Europe serve as a reserve of markets and skilled labor to substantially increase its relative advantages. For Mexico and the United States, a free-trade agreement between our countries could be the answer to this extraordinary challenge.

The strength of our nation, the vitality of our culture and the desire to participate with full rights in the great world transformation under way have prompted us to thoroughly reformulate our relations, ratify our principles, leave baseless fears behind us and strengthen our respectful collaboration, so as to open up horizons that offer greater opportunities for both our societies. To reinforce this new era of relations between Mexico and the United States, we must consolidate the economic program that we have proposed. To strengthen the economic opening of Mexico by means of suitable reciprocity in the United States and greater investment flows into our country is in the best interest of our bilateral relations.

We have a historical opportunity for a new era of friendship and respectful cooperation between our governments and, above all, between two generous and noble societies. I invite you to take part in building this new period in our neighborly relations at a time that heralds the arrival of the twenty-first century with its promise of broader horizons for our peoples.

Mr. ROBINSON. Thank you, sir. It was indeed an outstanding speech delivered with conviction, scope, with understanding. It was most impressive.

The Roundtable has also tried to be timely in view of the economic reforms under way in Mexico. Starting late in 1989 we set about to evaluate our overall trade and investment relationships. This effort culminated in last Thursday's release of our statement, which has been distributed to you and members of your staff, entitled "Building a Comprehensive United States-Mexico Relationship: Looking Towards the Future."

In the interest of time, I will simply summarize that report. I would hope that it would be included in its entirety as an official matter of this record.

Chairman GIBBONS. We will do that also.

[The information follows:]

The Business Roundtable

Building a Comprehensive U.S.-Mexico Economic Relationship:

Looking Towards the Future

June 1990

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Introduction

The Business Roundtable strongly believes that it is in the mutual interest of the United States and Mexico to negotiate a comprehensive bilateral trade and investment agreement. These negotiations should commence after the completion of the Uruguay Round of Multilateral Trade Negotiations. The framework for the negotiations should, however, be developed as soon as possible by our respective governments and in consultation with both the U.S. and Mexican private sectors. In a highly competitive global economy, closer economic cooperation between the United States and Mexico will enhance the worldwide competitiveness of both countries.

This paper outlines the importance of forging closer economic ties with Mexico at this time. Section I sets forth The Business Roundtable's policy recommendations for negotiating a comprehensive trade and investment agreement between the United States and Mexico. Sections II through VI provide the basis for these recommendations.

Background

Great potential exists for substantially increased economic activity between the two countries. The Mexican government is fostering dramatic changes in the structure of the Mexican economy. The far-reaching reforms which have already taken place in Mexico and which are continuing to modernize, privatize, and liberalize the Mexican economy make substantially closer economic ties with the United States both possible and desirable. With the changes has come a positive attitude towards increased U.S.-Mexico links. Closer economic ties have the potential to maximize economic growth, jobs, and the international competitiveness of both countries.

During the past several years, the multilateral arena of international trade negotiations has appropriately taken center stage with the ongoing Uruguay Round of GATT negotiations. As the Uruguay Round progresses toward its conclusion, U.S. policymakers should begin to turn their attention to our neighbor to the south. Europe's aggressive pursuit of its 1992 integration initiative and new markets in Eastern Europe, and Japan's dominant trade, investment, and financial position in Asia, highlight the importance of taking advantage of the unique trade and investment opportunities available to the United States and Mexico.

Building closer ties with Mexico is an essential step in developing a comprehensive North American trade and investment strategy. The U.S.-Canada Free Trade Agreement was an important first step towards increased North American economic integration. Now, the time is right to develop closer economic ties with Mexico.

I. *Developing a Comprehensive U.S.-Mexico Economic Relationship: Policy Recommendations*

The Business Roundtable strongly supports an initiative by the governments of the United States and Mexico to begin comprehensive trade and investment negotiations. These negotiations should commence after the current efforts in the GATT Uruguay Round to further expand multilateral opportunities for economic growth are completed. The framework for the negotiations should, however, be developed as soon as possible by our respective governments and in consultation with both the U.S. and Mexican private sectors. Objectives of the negotiations should include:

- ★ *Seeking broad liberalization of trade in goods and services and investment between the United States and Mexico;*
- ★ *Fostering policies that will enhance the global competitiveness of both the United States and Mexico;*
- ★ *Enhancing increased cooperation between the two economies;*
- ★ *Ensuring that, to the extent consistent with the GATT, the benefits of an agreement accrue to the United States and Mexico;*
- ★ *Establishing a mechanism for an ongoing dialogue between the two countries to encourage continued economic liberalization; and*
- ★ *Providing effective dispute resolution procedures.*

The negotiations should include all sectors. Specific subjects to be covered include all those being negotiated in the GATT Uruguay Round, with a view to moving beyond the multilateral agreements, where appropriate. In particular, the U.S. and Mexican governments should negotiate agreements on tariffs, non-tariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve the bilateral economic relationship.

The comprehensive nature of the negotiations will present business as well as political challenges for both the United States and Mexico. The negotiations should, therefore, also address appropriate transition periods to minimize economic dislocations which may occur.

The Business Roundtable believes that it is in the interest of both countries to move as quickly as possible towards the elimination of all barriers to economic activity between the United States and Mexico. The resulting agreements should be implemented through amendments to the national laws of the United States and Mexico.

II. *The Importance of U.S.-Mexico Trade and Investment Relations*

The bilateral trade and investment relationship between Mexico and the United States is critically important to both countries. Mexico and the United States share a variety of economic and social ties. In 1989, two-way trade between Mexico and the United States surpassed $51 billion. The United States is Mexico's primary export market and its largest supplier of imports. Mexico, in turn, is our third largest trading partner.

Mexico's trade and investment liberalization efforts over the last few years have allowed U.S. exports and investment greater access to its burgeoning market. Thus, in 1989 alone, U.S. exports to Mexico rose by 20% to a total of over $24 billion. Meanwhile, Mexico's new market-oriented economic policies have also resulted in diversification and expansion of Mexican exports.

With its current $12 billion of investment in Mexico, the United States is Mexico's leading foreign investor, accounting for over 60% of its total foreign investment in value. Traditionally, Mexico has been the largest Latin American contributor of foreign investment in the United States.

Besides sharing a flourishing trade and investment relationship, Mexico and the United States also have important cultural connections, including an increasing number of persons of Mexican origin in the United States. More Americans reside in Mexico than in any other foreign country. With a 2,000-mile common border, neither country can avoid being affected by the other's economic, social, and political climate. The same concerns – debt, finance, trade, environment, migration, and drugs – dominate the agendas of both countries and are often interrelated.

III. *Mutual Benefits from Closer Economic Cooperation*

Mexico's recent economic reforms, explained in more detail in Section IV, have created an important opportunity to forge closer ties at this time. Both the United States and Mexico stand to benefit substantially from closer economic cooperation.

- ★ *A comprehensive U.S.-Mexico trade and investment relationship can help secure Mexico's commitment to the continued opening and modernization of its economy.* It should be remembered that Mexico has a history of strong economic growth, financial stability, and low inflation. The economic troubles of the 1980's were an aberration and not the norm. With the recent reforms in place, the Mexican economy is at a crossroads. The greater the certainty that Mexico's reforms will continue and are irreversible, the greater the likelihood of achieving a resumption of strong economic growth and stability.
- ★ *The U.S. private sector will benefit substantially from the market opportunities that a strong Mexico can offer.* A growing Mexican economy offers significant opportunities for increased U.S. exports of manufactured goods and services. Mexico will have 100 million consumers before the year 2000. As Mexico's economy develops, its citizens will prosper, resulting in an ever-increasing demand for consumer goods. U.S. companies have a unique advantage in the Mexican market because of proximity and Mexican familiarity with U.S. products. After years of depressed investment, Mexico needs capital goods to support rebuilding and modernization of its infrastructure. As Mexico's industries develop, they will require materials, components, and inputs.
- ★ *Bilateral trade and investment liberalization will lead to new manufacturing and supply relationships between our two countries.* Today, many of America's most successful companies source in distant parts of the world to maintain domestic and international competitiveness. Mexico, with its proximity, increasingly skilled labor force, increasingly stable economic environment, and recent commitment to market principles, is a logical partner for U.S. business.
- ★ *The United States has a vital political interest in fostering Mexico's economic recovery.* Lack of economic growth contributes to political instability, migration problems, and fewer market-oriented government policies. On the other hand, strong domestic growth means Mexican jobs for Mexican workers, rising living standards, and greater political stability, which are clearly in the interest of both countries.

- *In the multilateral context, Mexico can be a leader in supporting trade and investment liberalization in the Uruguay Round of GATT negotiations in the coming months.* As a developing country that has committed itself to liberalizing its economy, Mexico can serve as a bridge to those developing countries that continue to resist liberalization. Strong, comprehensive multilateral agreements in the GATT will serve as an important foundation for strengthening the U.S.-Mexico bilateral relationship.
- *A comprehensive trade and investment accord between the United States and Mexico will help bolster confidence in the Mexican economy, resulting in a return of flight capital and increased foreign direct investment.* Mexico's recent reforms have yet to bear fruit in terms of a significant rise in return of flight capital or major increases in foreign direct investment. Capital inflows are essential to Mexico's economic growth and the success of its ambitious reforms. The codification of Mexico's investment reforms into law will further encourage foreign investors to invest in Mexico.
- *Developing closer economic ties with the United States will create new global export opportunities for Mexican companies as well as promote the international competitiveness of Mexican products.* The elimination of barriers between the two countries will facilitate the flow of information, technology, and investment into Mexico and improve its position as an export platform to the United States as well as the rest of the world.

Despite the disparity in our levels of economic development, the United States and Mexico can forge closer economic ties with mutual benefits. It would be a mistake to view this difference in levels of economic development as a hindrance to increased economic ties. Instead, the focus should be on the complementary nature of the U.S. and Mexican economies. The integration of Portugal and Spain into the European Community and the developing economic relationships among Western European and Eastern European countries demonstrate the potential for a mutually beneficial relationship between countries with different levels of economic development.

IV. *The Emerging Mexican Trade and Investment Framework: Recent Domestic Reforms*

Within the last few years, the Mexican government has reoriented the structure of its development policy from an import-substitution model, which sought growth through domestic subsidies and production of import substitutes, to an export-oriented model of competition in the global market. The Mexican government has enacted a series of trade and investment reforms, which has created new opportunities for the development of international trade and investment relations.

New domestic economic policies are designed to give the private sector the leading role in stimulating economic growth and opportunity, while the government shifts its priorities to the social needs of its people. These reforms reflect a fundamental rethinking of the role of the state in Mexico, moving Mexico towards a modern, market-oriented, industrialized society.

★ *Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in August 1986 marked the watershed in the country's trade policy.* Historically, the leaders of the Mexican economy had opposed entry into the GATT because it represented a much-feared exposure of local industry to global competition. Thus, Mexico's decision to join the GATT signalled its decision to shift to an open export-oriented model of development.

★ *Since joining the GATT, Mexico has lowered its trade barriers across the board.* It reduced maximum tariff rates from 100% to 20% and now has an average tariff rate comparable to industrialized countries. In addition, it eliminated the import licensing requirement for 95% of its imports.

★ *Over the past several years, Mexico has drastically reduced its budget deficit.* In an effort to stabilize its economy, Mexico successfully reduced its budget deficit from 16% of gross domestic product in 1986 to near balance in 1989, on an inflation-adjusted basis.

★ *The Mexican government has significantly lowered inflation with the Pact for Economic Stabilization and Growth.* The social pact among government, business, and labor is a program for control of wages, public sector prices, some private prices, and the exchange rate. The pact helped Mexico's inflation rate drop to about 20% in 1989 from a high of over 160% in 1987.

- *The Mexican government has instituted sweeping tax reforms* as a noninflationary means to finance public investment in strategic and high-priority areas essential to Mexico's development. By eliminating numerous loopholes in the tax code, tightening enforcement, and broadening the tax base to include some professions that had previously enjoyed exemptions, Mexico has already increased tax revenues by 17%. In order to stimulate its economy, Mexico reduced its corporate tax rate from 42% in 1988 to 35% in 1991.
- *New foreign investment regulations promulgated in May 1989 granted automatic approval of foreign investments of up to $100 million, allowed 100% foreign ownership in many sectors of the economy, and opened many other previously closed sectors to foreign investment.* These regulations represent a dramatic departure from Mexico's previous practice which limited foreign investors to minority ownership in most industries, barred them completely from many others, and required investment approval through an administrative process which on average took 1 1/2 years to complete.
- *In January 1990, Mexico began the process of reforming its rules on technology transfer and intellectual property.* First, the government promulgated regulations relaxing government monitoring of technology transfers and eliminating ceilings on royalty payments. Second, the government announced that it will send the Mexican Congress a legislative package that would give intellectual property protection "similar to that which is given in advanced nations." In response to the Mexican government's actions, the United States removed Mexico from the "Priority Watch List" established under the 1988 U.S. Trade Act for nations lacking adequate intellectual property protection.
- *The Mexican government has privatized or liquidated some 800 state businesses,* in sectors ranging from airlines to petrochemicals, in an effort to foster competition and unlock state funds for the country's social needs. This year will see the privatization of three of Mexico's biggest government-owned entities – the country's telecommunications company Telefonos de Mexico, the copper mining concern Cananea, and the national basic commodities company Conasupo.

- ★ ***Mexico has obtained the support it needed to escape its debt crisis and carry out its program of economic development with the adoption of the 1990 debt reduction agreement,*** the first to follow U.S. Treasury Secretary Nicholas Brady's Third World debt initiative. Covering all of Mexico's $48.5 billion medium and long-term commercial bank debt, the 1989-92 financing package sets a fixed 6 1/2% interest rate on 49% of the debt, reduces the principal on 41%, and infuses new lending totalling approximately 13% of the total debt. The package will save Mexico an estimated $4 billion a year and give it a 30-year shield against rising interest rates.
- ★ *The Mexican government has decided to reestablish a private banking system.* The return to a mixed banking system with private ownership of commercial banks will strengthen the Mexican financial system and free government resources to assist in the development of the infrastructure essential to economic growth.

The extensive reforms adopted by the Mexican government represent proof that Mexico is committed to pursuing a market-oriented policy of economic growth and development, which emphasizes export competitiveness and an open trade and investment regime. Mexico's new economic framework provides the foundation for the development of a mutually beneficial U.S.-Mexico trade and investment relationship.

V. *Mexico's New Attitude*

Perhaps of greatest importance, the recent economic reforms in Mexico have been accompanied by a dramatic change in attitude towards the United States on the part of both the Mexican government and private sector. The already extensive economic interdependence between the two countries and the mutual benefits of a stronger, broader, and deeper economic relationship with the United States, as well as Canada, are recognized as key elements in Mexico's economic future. Preliminary discussions with the United States on how to develop a comprehensive trade and investment relationship, and the signing in March 1990 of a series of economic and commercial understandings with Canada reflect Mexico's decision to work more closely with its North American trading partners.

Mexico's reforms have helped build a dynamic new business environment as many Mexican companies have modernized and restructured in order to compete. Much of the Mexican private sector is poised to take advantage of opportunities arising from establishing closer economic ties with the United States. Many Mexican companies see the potential for mutually beneficial partnerships and joint ventures with U.S. companies. These companies view the United States as instrumental to their own global competitiveness and look forward to promoting increased ties between the United States and Mexico. The support of leaders of the Mexican private sector for closer cooperation between the two countries is evidenced by their endorsement of a comprehensive U.S.-Mexico trade and investment accord in the Mexico-U.S. Business Committee, a coalition of U.S. and Mexican industry leaders.

VI. *Existing U.S.-Mexico Bilateral Agreements Do Not Go Far Enough*

Over the past several years significant steps have been taken towards developing a closer U.S.-Mexico trade and investment relationship. In November 1987, the countries adopted a framework for consultation and dispute settlement regarding trade and investment matters. In October 1989, Presidents Bush and Salinas signed an "Understanding Regarding Trade and Investment Facilitation Talks," calling for negotiations in specific product areas, as well as on nonsectoral issues.

The 1987 Framework and the 1989 Understanding have played an important role in formalizing both countries' commitment to developing stronger economic ties. They provide an important foundation for future negotiation and cooperation, and they demonstrate that both countries have confidence that substantial benefits will result from eliminating market barriers.

However, existing bilateral agreements were not designed to achieve a comprehensive economic relationship between the two countries. Instead of narrow sector-by-sector trade liberalization, the objective should be a broad expansion of market opportunities on both sides of the border. Only when the entire range of issues is addressed can policies be formed with a full understanding of the linkages among them.

Conclusion

As the Uruguay Round draws to a close, The Business Roundtable urges U.S. and Mexican policymakers to turn their attention to the future economic relationship between the two countries. An opportunity now exists to forge a broader economic relationship with mutual benefits for both the United States and Mexico. It would be a mistake to lose this important opportunity.

Mr. Robinson. The Business Roundtable report calls for the negotiation of a comprehensive bilateral trade and investment agreement between the United States and Mexico. It highlights why these negotiations are important, mutually beneficial, and achievable.

During the past several years, the multilateral arena of international trade and investment negotiations has appropriately taken center stage with the ongoing Uruguay round of GATT negotiations. As you know, the Roundtable is strongly committed to the successful conclusion of the MTN. The agreements resulting from the GATT talks, hopefully, will serve as the basis for achieving further liberalization with Mexico.

As the Uruguay round moves into its final stages, the United States should appropriately begin to focus on its neighbor to the south. While the world has fixated on the events unfolding in Eastern Europe, and properly so, some extraordinary reforms have been occurring much closer to home. For economic, political and strategic reasons, it is essential that we seize this opportunity to develop closer ties.

In order to obtain a successful agreement, the Roundtable believes that the negotiations must be comprehensive. They should include all subjects being negotiated in the Uruguay round, with a few to moving beyond multilateral agreements, where appropriate.

In particular, the United States and Mexican Governments should negotiate agreements on tariffs, nontariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve the bilateral economic relationship.

Negotiations with Mexico should broaden liberalization of trade in goods and services and investment; foster policies that will enhance the global competitiveness of both the United States and Mexico; enhance cooperation between the two economies; ensure that, to the extent consistent with the GATT, the benefits of an agreement accrue to the United States and Mexico; establish a process for continued economic liberalization; and provide effective dispute resolution procedures.

Comprehensive trade and investment negotiations are critically important because: Mexico is our third largest trading partner, $51 billion in two-way trade; the United States is the largest supplier of Mexican imports. In 1989 alone, U.S. exports to Mexico rose by 20 percent to a total of over $24 billion; and with $12 billion of investment, the United States is the leading foreign investor, accounting for over 60 percent of its total foreign investment.

Besides sharing a flourishing trade and investment relationship, Mexico and the United States also have important cultural connections, including an increased number of persons of Mexican origin in the United States. More Americans reside in Mexico than in any other foreign country. Obviously, with a 2,000 mile common border, neither country can avoid being affected by the other's economic, social and political climate.

The negotiations of a comprehensive agreement will yield substantial benefits for both.

First, an FTA will provide a significant opportunity for increased U.S. exports of manufactured goods and services. As Mexico's economy develops, its 100 million to-be-consumers will demand more consumer goods and its companies will require capital goods to support rebuilding and modernization.

Second, the agreement will generate increased confidence in Mexico's economy which in turn will result in a return of flight capital and increased foreign investment, both already taking place and both of which are critical to Mexico's economic development.

Third, an FTA will result in new manufacturing and supply relationships which will improve the international competitiveness of both United States and Mexican companies. It is an opportunity to build partnerships that will get business for the two of us rather than have that business go to Asia.

Finally, the agreement will help support Mexico's economic recovery. A strong Mexico is clearly in the interest of the United States. Economic growth contributes to political stability, reduces migration problems and promotes the continued support for market-oriented policies.

Comprehensive trade and investment negotiations with Mexico are achievable in large part because of remarkable reforms that have been undertaken already. The Salinas government has abandoned its import substitution policies and has embraced export-oriented policies designed to make Mexican businesses world-class competitors.

Mexico opens its own domestic markets to the dynamics of world competition. If ever there was a time to forge closer relations, it is now.

Let me take a few remaining minutes to highlight some of these reforms: Mexico has reduced tariffs from 100 percent to 20 percent or lower, and eliminated import licensing requirements for 95 percent of its imports. It has clarified and liberalized its laws that govern foreign investment, authorizing automatic approval of foreign investment in many previously closed sectors. It has privatized or liquidated some 800 state businesses. Restored private banking or banking to the private sector. Acceded to the GATT. Enacted sweeping tax reforms. And drastically reduced its budget deficit from 16 percent of GDP to near zero, and substantially lowered inflation.

Despite the disparity in our levels of economic development, the United States and Mexico can forge closer economic ties with mutual benefits. It would be a mistake to view any difference in levels of economic development as a hindrance to increased economic ties. Instead, the focus should be on the complementary nature of the United States and Mexican economies.

The negotiation will not be easy. It will present economic and political challenges for both countries. Clearly the final agreement will have to include appropriate transition periods to minimize any economic dislocations which may occur in both countries.

Yet the benefits will be substantial. The integration of Portugal and Spain into the European Community and the developing economic relationships among Western Europe and Eastern Europe demonstrate the potential for a mutually beneficial relationship between countries with different levels of economic development. Clearly there is enough evidence that these are win/win situations.

As the Uruguay round draws to a close, the Business Roundtable urges United States and Mexican policymakers to turn their attention to the future economic relationship between our two countries. An opportunity now exists to develop and nurture a broader economic relationship with mutual benefits for both the United States and Mexico. It would be a mistake to lose this important opportunity.

President Sālinas in his remarks the other night spoke of his vision of the 21st century and his determination to see that Mexico is brought up to speed and is a full member of that revolution.

He pointed out the experience that they have learned, that popularism brings inflation, less service, lower standards of living. He is dedicated to market-oriented economies and the BRT endorses every effort that this committee can make to encourage the objective.

Thank you, Mr. Chairman.

[The statement of Mr. Robinson follows:]

TESTIMONY OF JAMES D. ROBINSON III

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
AMERICAN EXPRESS COMPANY

AND

CHAIRMAN, INTERNATIONAL TRADE & INVESTMENT TASK FORCE
OF THE BUSINESS ROUNDTABLE

BEFORE THE
WAYS AND MEANS SUBCOMMITTEE ON TRADE
U. S. HOUSE OF REPRESENTATIVES
JUNE 14, 1990

I am James D. Robinson, the Chairman and Chief Executive Officer of the American Express Company. As Chairman of The Business Roundtable's Task Force on International Trade and Investment, I welcome this opportunity to share The Roundtable's views on the United States' economic relationship with Mexico.

Mr. Chairman, I want to commend you and your colleagues for holding such a timely hearing. As you know, on Monday, Presidents Bush and Salinas announced their desire for the United States and Mexico to negotiate a free trade agreement and directed their trade ministers to begin the preliminary work for the negotiations as soon as possible. President Salinas also addressed The Roundtable's annual meeting on Monday. In his speech, he emphasized his strong commitment to continuing to liberalize the Mexican economy and for closer economic cooperation with the United States. With your permission, I would like to have President Salinas' speech to The Business Roundtable included in the record of this hearing.

The Roundtable has also tried to be timely. In view of the dramatic economic reforms underway in Mexico, The Roundtable started in late 1989 to evaluate our trade and investment relations with Mexico. The Roundtable's efforts culminated with the release last Thursday of The Roundtable's report, "Building a Comprehensive U.S. - Mexico Economic Relationship: Looking Towards the Future." In the interest of time, I will summarize our report for you. I would greatly appreciate having a complete copy of the report included in the record of the hearing.

"Building a Comprehensive U.S. - Mexico Economic Relationship" calls for the negotiation of a comprehensive bilateral trade and investment agreement between the United States and Mexico. It highlights why these negotiations are important, mutually beneficial and achievable.

During the past several years, the multilateral arena of international trade and investment negotiations has appropriately taken center stage with the ongoing Uruguay Round of GATT negotiations. As you know, The Roundtable is strongly committed to the successful conclusion of the MTN. The agreements resulting from the GATT talks will serve as the basis for achieving further liberalization with Mexico.

As the Uruguay Round moves into its final stages, the United States should begin to focus on its neighbor to the south. While the world has fixated on the events unfolding in Eastern Europe, some extraordinary reforms have been occurring much closer to home. For economic, political and strategic reasons, it is essential that we seize this opportunity to develop closer ties with Mexico.

In order to obtain a successful agreement, The Roundtable believes that the negotiations must be comprehensive. They should include all subjects being negotiated in the GATT Uruguay Round, with a view to moving beyond multilateral agreements, where appropriate. In particular, the U.S. and Mexican governments should negotiate agreements on tariffs, non-tariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve the bilateral economic relationship.

Negotiations with Mexico should --

- Broaden liberalization of trade in goods and services and investment;
- Foster policies that will enhance the global competitiveness of both the United States and Mexico;
- Enhance cooperation between the two economies;
- Ensure that, to the extent consistent with the GATT, the benefits of an agreement accrue to the United States and Mexico;
- Establish a process for continued economic liberalization; and
- Provide effective dispute resolution procedures.

Comprehensive trade and investment negotiations are critically important because --

- Mexico is our third largest trading partner;
- The United States is the largest supplier of Mexican imports. In 1989 alone, U.S. exports to Mexico rose by 20% to a total of over $24 billion; and
- With $12 billion of investment, the United States is Mexico's leading foreign investor, accounting for over 60% of its total foreign investment.

Besides sharing a flourishing trade and investment relationship, Mexico and the United States also have important cultural connections, including an increased number of persons of Mexican origin in the United States. More Americans reside in Mexico than in any other foreign country. And with a 2,000-mile common border, neither country can avoid being affected by the other's economic, social, and political climate.

The negotiation of a comprehensive agreement will yield substantial benefits for both countries.

First, an FTA will provide significant opportunities for increased U.S. exports of manufactured goods and services. As Mexico's economy develops, its 100 million consumers will demand more consumer goods and its companies will require capital goods to support rebuilding and modernization.

Second, the agreement will generate increased confidence in Mexico's economy which in turn will result in a return of flight capital and increased foreign investment, both of which are critical to Mexico's economic development.

Third, an FTA will result in new manufacturing and supply relationships which will improve the international competitiveness of both U.S. and Mexican companies.

Finally, the agreement will help foster Mexican's economic recovery. A strong Mexico is clearly in the interest of the United States. Economic growth contributes to political stability, reduces migration problems and promotes the continued support for market-oriented policies.

Comprehensive trade and investment negotiations with Mexico are achievable in large part because of remarkable reforms that have been undertaken by Mexico. The Salinas government has abandoned its import substitution policies and has embraced export-oriented policies designed to make Mexican businesses world class competitors. If there was ever a time to forge closer relations, this is it.

I'd like to take a few minutes to highlight some of these reforms. Mexico has:

- Reduced maximum tariffs from 100% to 20% and eliminated import licensing requirements for 95% of its imports;
- Authorized automatic approval of foreign investments of up to $100 million and allowed 100% foreign ownership in many previously closed sectors;
- Privatized or liquidated some 800 state businesses;
- Restored private banking;
- Acceded to the GATT;
- Enacted sweeping tax reforms; and
- Drastically reduced its budget deficit from 16% of GDP to near zero, and lowered inflation.

Despite the disparity in our levels of economic development, the United States and Mexico can forge closer economic ties with mutual benefits. It would be a mistake to view any difference in levels of economic development as a hindrance to increased economic ties. Instead, the focus should be on the complementary nature of the U.S. and Mexican economies. The negotiation will not be an easy undertaking. It will present economic and political challenges for both countries. Clearly the final agreement will have to include appropriate transition periods to minimize any economic dislocations which may occur.

Yet the benefits will be substantial. The integration of Portugal and Spain into the European Community and the developing economic relationships among Western European and Eastern European countries demonstrate the potential for a mutually beneficial relationship between countries with different levels of economic development.

As the Uruguay Round draws to a close, The Business Roundtable urges U.S. and Mexican policy-makers to turn their attention to the future economic relationship between our two countries. An opportunity now exists to develop and nurture a broader economic relationship with mutual benefits for both the United States and Mexico. It would be a mistake to lose this important opportunity.

Chairman GIBBONS. I want to thank you both for your contribution to expanding and improving the environment for trade in this country and around the world.

I trust that in the Uruguay round and in the Canadian negotiations and on this negotiation, your business associates will be and have been fully consulted. Am I correct in that?

Mr. ROBINSON. Yes, sir, that is the case both through the work of the trade committee of the Roundtable as well as through the ACPTN and policy advisory groups.

Ambassador Hills has done an outstanding job of reaching out and resourcing the data, the intelligence, the information from the private sector not only at the Roundtable level, but I think on a broad-scale approach.

Chairman GIBBONS. The reason why I ask that question, I am afraid because of the complexity of this agreement we are going to be even more vigorous in reaching out not only the Roundtable members such as yourself and ECAT members, but all segments of our society.

I realize when you get around a conference table, you are usually not interested in bringing in too many different voices. But I hope that you will use your great experience to encourage our government to consult broadly and wisely because we are going to need very broad political support to get this agreement ratified.

Tell me, based upon your observations of other trade agreements, have you any timetable in your mind as to how rapidly this could be accomplished, either one of you or both of you? What is your idea about the time involved in all of this?

Mr. AVERY. Well, as I listened to some of the testimony this morning, and I recall a question was addressed to Ambassador Hills on this issue, I would expect a minimum of 1½–2 years before we can see an agreement completed. I would hope we could do it in that period of time.

Because of the broad interest that was expressed in addressing as many of the constituencies as possible in this country, it would be difficult for me to see accomplishing a finished agreement in any less time than this.

Mr. ROBINSON. I would guess that is a good approximation of the real world calendar out there. I would say, however, that having gone through the Canadian Free-Trade Agreement and having been active in the Uruguay round, that there is a body of momentum out there created by industry groups and by special areas such as intellectual property or services that hopefully can accelerate the process.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

It is a pleasure to see you here, Mr. Avery. Coming from New Jersey, I am particularly proud of Johnson & Johnson.

Mr. AVERY. Thank you very much.

Chairman GIBBONS. We claim him in Florida, too.

Mr. GUARINI. Right.

Mr. AVERY. We are claimed in a lot of States.

Mr. GUARINI. Jim Robinson, it is also good to see you again. You were very helpful to us at our trade policy retreat in Winston-Salem, North Carolina.

We appreciated your experience and wisdom at that time, as well as now. I wanted to ask you whether or not we have learned any lessons from the Canadian agreement that would be helpful to us in our discussions concerning Mexico? Have there been any shortfalls, which you can remember with CEO or American Express, that you think we can benefit from?

Mr. **Robinson**. There were two big problems with the Canadian agreement. Congress did not feel at the time that there had been effective consultation between the administration and Congress. I think that we have long since passed that hurdle and I compliment Carla Hills on her effort to keep everybody aware of what is going on and to have an attitude of inclusiveness rather than exclusiveness.

Second, in the Canadian agreement there was a lot of emotion that flared up initially related to national sovereignty in dispute settlement.

It turned out to be a red herring, so hopefully, we won't make that mistake again because you won't have to raise that issue. What we are looking for are credible dispute settlement procedures.

If they are credible, in fact, then I think there is a willingness to allow those bodies to operate effectively. My only generalization would be to really encourage this inclusiveness attitude of generating the facts because only the facts will help deal with the rhetoric and a lot of the misconceptions or anachronistic issues that otherwise would be nettlesome in any free-trade negotiation.

I think Gerry Perlman who spoke about the impact of maquiladoras in generating jobs in this country, as well as Mexico and enabling Zenith to have a substantial amount of business that otherwise would have been forfeited to foreign manufacturers elsewhere in the world. Getting the facts on that kind of impact, I think, is the job ahead.

Mr. **Guarini**. We do have a sensitive and delicate situation with Mexico that we didn't have with Canada because of the border problems we have. We have perhaps no border problem with Canada whatsoever, as compared to the illegal alien issues, the drugs, and other issues that very emotionally impact this.

So we must be very careful as to how we approach the subject matter and learn from any experience that we have had in the past.

There was a discussion a little earlier, you weren't here at the time, but Mr. Avery was, concerning the method of approval in Mexico of a free-trade agreement. There, of course, its Congress and President is involved.

But what is interesting is that banking is a matter of their Constitution. Now, from your experience in the financial world and American Express is very much involved in finances and global finances, if you took that component of banking, if they were able to get it through their Congress and they were able to get it through by Executive order, but the banking problem itself was not able to be resolved because of the constitutional restrictions that they would have since they don't have the political muscle or stability to change the Constitution, should that affect our free-trade agreement?

Would that be fatal to any kind of free-trade agreement if we took out the banking component?

Mr. ROBINSON. I guess, I would operate with the assumption that we are facing that issue in GATT and hopefully will have a financial services framework within a general framework services of the GATT which will address the issue.

That should facilitate being able to deal with the banking issue. You can have separate tracks on a number of these things. The very fact that the President was able to gain the authorization to privatize the banks, is a perfect example of a very dramatic step in an emotional area.

I think it shows that with the determination and political will, and he has got incredibly competent people in his cabinet, they can do what otherwise would seem to be the impossible, if they approach it the right way.

So I would not redline or draw off any kind of territory at this stage, but certainly that would be part of our objectives in defining what both countries want in the negotiation.

Mr. GUARINI. In dealing with Mexico, there has been a very sensitive area in the past: that is that has been political corruption. Now, I understand that it has been abated a great deal. That would impede capital from flowing in and businesses from starting up if the climate was not one in which was a good to do business in.

Have you found that it has sufficiently abated, that the problem is not longer existing? That it would be attractive? That the political climate is proper? That the corruption problems that they have had in the past are pretty much removed?

Mr. ROBINSON. Just like weeds in the garden, it takes an awful lot of daily attention, but the President made a very clear statement the other night at his Roundtable address, and that is that no person was above the law. Clearly, his own actions to date in dealing with issues of corruption have been quite decisive.

I would think that they would continue. He is well aware that you are dealing with a total mosaic and that without reestablishing credibility, you will not get foreign investment, or a return of flight capital. Any program is then going to only be a bandaid-kind of solution.

Mr. GUARINI. So they are diligently working on it?

Mr. ROBINSON. They are working on it and very much understand that it is a parallel piece of this total equation.

Mr. GUARINI. Let me ask you, both of you gentlemen deal hemispherically and globally. Do you see Canada, Mexico and the United States as an economic regional trade area where we would have very much what is happening in Europe today in our country, if we can call it an "United States of Europe Common Market", do you envision our objective should be long range, to have a single market in North America?

Mr. AVERY. In my view, unquestionably. It is just a matter of time before it happens.

The biggest impediment is to redress some of the economic differences that exist, and I think this move toward a free-trade agreement with Mexico is an important step in that process. When you look at the fact that in 10 years we are looking at a market in Mexico of 100 million people, we simply can't ignore that.

I think any steps that we can take that are going to reduce some of the disparities between Mexico and the United States and make a common marketplace a reality, are going to be to the advantage of not only Mexico, but also of the United States and Canada.

Mr. **Guarini**. While we are doing it, still maintain a very strong participation in NATO? That would be your opinion?

Mr. **Avery**. Participation in NATO? By all means.

Mr. **Guarini**. The United States stake in Europe should be strong?

Mr. **Avery**. Yes. I think we have a much easier job vis-a-vis Mexico than the Europeans in bringing Eastern Europe into their market, in bringing Mexico into our market. We share some really common beliefs.

There are cultural differences, but I think that Mexico understands what free enterprise is about. Mexico has a good understanding of a lot of our political beliefs and beliefs, are important. These are important premises on which to build a relationship.

If you look at East Europe today, you don't see these commonalities. So the Western Europeans have a tough job ahead of them, and I think it is in our interest to build relationships with people with whom we need to share borders, like we share with Mexico.

Mr. **Guarini**. The long-range plan would be to be one world, as Wendell Wilke once said, and not be regional.

Mr. **Avery**. Exactly. I think we have to do both.

Mr. **Guarini**. That is it is so important that we keep alive the Uruguay rounds as one of our objectives. It will be a great world if we hold it together.

Mr. **Avery**. If we live long enough.

Mr. **Robinson**. Let me just add that clearly the GATT round is the number one prize because without it, we will all go crazy trying to grow our businesses around the world. I think we can have both just because all the things that were just said.

You don't have to deal with issues of a political union which bring up all kinds of other considerations. So if we don't let some of the difficulties of those emotional type of issues get in the way, there is an incredible opportunity to have both a successful Uruguay round and a meaningful free-trade agreement with Mexico.

Mr. **Guarini**. Thank you.

Chairman **Gibbons**. Mr. Richardson, you had such an important role in urging these early hearings.

Mr. **Richardson**. Thank you.

Mr. Robinson, I have some good news, at least for me. One of my constituents just won an American Express award for one of your geography contests. I think that is good because we have very little perception of where we are in the international order.

So, thanks for having these contests.

Gentlemen, I can't think of two more able individuals to answer the question that was the subject of the debate early on in the hearing and that is that a United States-Mexico free-trade agreement is going to cost American jobs. That, in effect, what we are doing is we are going to lose 400,000 jobs.

I tried to counter that with a view that I think you are going to create jobs and that the whole country will benefit. It is a very softball question, but I want to get it on the record from both of you, and that is deal with the jobs issue in connection with this agreement.

Mr. Robinson, maybe you would like to go first.

Mr. ROBINSON. First of all, I am not surprised that someone from your area won the geography prize, so congratulations, and thank you for your interest in reading it into the Congressional Record.

The protectionism doesn't work. You cannot edict jobs to be protected from competition in tomorrow's world. There may be some dislocations, and that is why we need transition times, and adjustment assistance. Those kinds of factors must be part of a sensible agreement. In my view, you will create far more jobs because the Mexican market will open.

There will be opportunities both for foreign and U.S. investment in that country. In addition the United States and Mexico will enjoy a sharing, if you will, of the business opportunities elsewhere around the world, because we have the chance to work closely together utilizing the best skills of both sides of the border.

That is the kind of thing that fact-gathering ought to be able to deal with. To target those, to show those areas where there may be dislocation, to think through what the tradeoffs are and what the options are.

So in my view, the final analysis will be far more productive across the board than that comment would suggest or that that point of view would suggest.

Mr. AVERY. I can only share what Mr. Robinson has just said. I think in the long run, it is going to create jobs—more jobs here in the United States. The rationale for that is that with an open border, with free trade with Mexico, with a general improvement of economic conditions in that country, we are going to be selling more product down there.

Yes, they will sell product up here, but we will sell a lot more product in Mexico than we do today.

Our maquiladora operations on the Mexican border have led to more jobs in the United States—more jobs in Johnson & Johnson prior than to having these operations along the common border.

Mr. RICHARDSON. My last question is this: as you know, both of you, American business is always telling the Congress give us better tax initiatives, more export promotion, help the Eximbank. Many times when we try to compete internationally, you know it has been no secret of criticism of American business, of American executives, that we have gotten a little too fat, that we are not as aggressive. We don't learn the language.

My question with respect to this United States-Mexican free-trade agreement, do you really think that American industry, American business will tale advantage of this opportunity?

We already have a substantial presence in Mexico. But do you see some real new enterprises there? Some creative new enterprises such as the potential coproduction zones? Joint enterprises?

Do you see any real commitment on the part of American business to go in there and in a more partnership way with Mexican industry that is liberalized and that is more conducive to foreign investment, generate new kinds of business relationships?

Mr. AVERY. Absolutely. Because of improvements in the Mexican economy, we are, as a company, looking at new investment opportunities there because of the improved conditions.

The more that Mexico improves its business environment, I think the more capital flow you will see going in there. We are comfortable with Mexico. We have known Mexico for many years. I think most enlightened American businessmen will look at a favorable environment as an opportunity, and take advantage of it.

I don't think that you will have to chase them to go in.

Mr. ROBINSON. That is my view as well. It started, I guess, about a year ago, several of us polled together a kind of an informal survey of a number of U.S. companies to deal with the exact instances where things could be changed within the Mexican structure to encourage more foreign investment.

Intellectual property, foreign investment laws. Those were the kinds of things that came up as specific things that need to be done.

The Mexican Government has done and is doing that. If President Salinas had had his order book with him the other night, he could have booked a lot of business.

The competitive dynamics of the world are such that it does not take much of a change in an environment for there to be a flow of funds and a real fast buildup of interest in looking for opportunities whether in the goods or the services area.

What Mexico has underway has the greatest chance I have ever seen of bringing that about in a quantum leap fashion.

Mr. RICHARDSON. Thank you, Mr. Chairman.

Chairman GIBBONS. I appreciate the contribution that both of you gentlemen have made. Let me say that I look forward to that day because I think we have already opened the dialog that we need to on trade. We need to open a dialog on this perfectly stupid U.S. tax system we have got.

I look upon it as probably being the biggest impediment to jobs and business growth in the world. I am not going to ask you all to comment on that now, because I don't want to get anybody's attention diverted.

But that should certainly be the next thing on our agenda.

As I understand—and I think I do understand the U.S. tax system—I have been at it 20 years here, more than that really—we are penalizing the growth of American jobs in this country and we are subsidizing imports through this stupid system. But I am not going to ask you all to comment on that.

I just want to let you know that some day when we open a trade discussion, we are going to talk about taxes. That is a real impediment to the growth of the American economy. So thank you for coming and thank you for participating and let's go on now to the next group of witnesses.

All right. Rudi Dornbusch, who is the Ford International Professor of Economics, Massachusetts Institute of Technology; Sidney Weintraub for the Center for Strategic and International Studies. We have the Honorable Diego Asencio, who is chairman of the Commission for the Study of International Migration and Cooperative Economic Development, and we have Joseph A. McKinney, professor of economic and director of research of for the region of

North America project at Baylor University in Waco, Texas; and we have President John St. John of St. John-Villarreal Associates.

I welcome you all here.

Mr. Dornbusch.

STATEMENT OF RUDIGER DORNBUSCH, FORD INTERNATIONAL PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. Dornbusch. Thank you very much, Mr. Chairman, for the opportunity to testify to this committee on the issue of United States-Mexican economic relations.

I would like to argue strongly that a North American free-trade area by the year 2000 is in the interest of the United States, and specifically in the interest of U.S. labor. It is also in the interest of U.S. citizens because we do have security issues with Mexico and the more prosperous is Mexico, the more safe our borders.

I believe there are three important questions to be asked about a trade pact with Mexico. First, whether it hurts U.S. labor; second, whether it is counter to United States traditional policy in the area of trade involving GATT and an open multilateral system; and, third is the question that you asked last week, and to which I hope I have a better answer this time, is Mexico today sufficiently stable so that it does make sense to have this marriage.

I want to start with the issue of U.S. labor interest. I want to argue very strongly that a Mexico-United States trade agreement will create jobs. I believe it will happen in three ways.

First, we will have a major increase in exports directly as Mexico dismantles the remaining trade barriers. A foretaste of that is the experience of the last 2 years where our exports to Mexico increased by $10 billion, twice the growth rate of U.S. trade with the rest of the world.

The increase in exports will come from the fact that Mexico has not been able to get United States goods. That the average Mexican knows the brand names. They are just waiting.

A second direction in which it will happen is that U.S. corporations will be able to perform in Mexico those tasks that are low wage, that, in fact, are quite undesirable to have here and, as a result, U.S. firms will be more competitive, at home and in the world economy.

Third, Asian producers who are now supplying the market from their locations will shift production to Mexico and that is advantageous for us because if the imports come anyway, much better that they should come from Mexico where people spend 15 cents out of every dollar's income on our goods than from Asia where they spend virtually nothing.

If you want a very crude test of what happens to our employment, we have to ask what will happen to our trade balance with Mexico? If exports increase, jobs increase. If imports increase, jobs falter.

My prediction is that Mexico will have a large trade deficit with the United States because they will be able to afford it, financing will become available and that means net job creation. We cannot guess from the current structure of trade whether the jobs will be.

But I am certain Mexico will have a deficit and a large deficit; that is what they want. That is economic progress. After so many years of lying low and that means natural creation in American and export jobs, which are good jobs.

On the second issue of multilateral trade and how does this fit in, I think it is critical to look at what Europe has done under the auspices of GATT, first with the common market, then with the free-trade area after and then in the free-trade agreement between the Common Market and EFTA. All that happened under the auspices of GATT, not thought to be contrary to multilateral trade practices.

Europe today is a free-trade area and there are negotiations to bring in Eastern Europe. Turkey is on the waiting list.

We are right to pursue the same strategy in North America. It is the safest way to get more trade for us and also in the longer run in the North Atlantic area.

Going the bilateral way parallel to GATT negotiations will, in fact, remind the rest of the world that there is something to be gained in doing business with the United States. We find today that in Asia there is a considerable slackening of interest, that people turn to Japan, for example, and Thailand and not pursue an active discussion with the United States.

So I find free trade with Mexico totally within GATT and a reasonable complement to the multilateral strategy.

I would notice that there is no reason to set it apart from the Uruguay round which has virtually nothing to do with manufacturing. It certainly cannot be documented that it will create jobs. That is very doubtful.

The Mexican agreement clearly will create jobs. I see them as complementary. I want to conclude by asking whether Mexico today is sufficiently stable and sufficiently pro-American, if one can say that, to make a reasonable partner. Certainly, it would be unwise to enter into an agreement with a country that is about to get an anti-American tantrum.

I am encouraged by the fact that the Mexican leadership wants to do business because they perceive that good relations with the United States are the only way to have a stable Mexico.

The last 8 years have taught that lesson. We know that the Mexican leadership is comfortable with that for two reasons. One is that in the economic cabinet, everybody has an economics Ph.D. from a major U.S. university.

That has two implications: one, they don't have to be un-American. They have made it here under the hardest tests. And second, they respect America because they have learned here more than they could have conceivably learned in their own country.

I think that is really the assurance that we have about a stable attitude there, and that is really where the big change in Mexico today comes from, that these people have been here. They have made it in America and are going back to apply those lessons on a massive scale and very successfully.

Politically, I am confident that next year Mexico will have a clean election because it is inconceivable that President Salinas should run the risk of having an unclean one.

With economic progress that would certainly come from a free-trade agreement, I am sure that the economy in Mexico over the next year will do so well that we can be confident of stable Mexican politics.

A rapid move toward negotiations, not necessarily conclusion, helps in bringing back the $50 billion or more that are part off shore and flight capital, waiting for a good excuse to go home. Free trade with the United States would make totally irreversible in Mexico the modernization that is underway and that is the assurance that flight capital wants to get back.

Therefore, accepting free trade with Mexico as a principle and having a reasonable timetable for conclusion, will make an important contribution to the stability in Mexico and that, in turn, means contribution to United States exports and to United States security interests.

Thank you, Mr. Chairman.

[The statement of Mr. Dornbusch follows:]

US-MEXICAN TRADE RELATIONS

Rudiger Dornbusch
Massachusetts Institute of Technology

The US should seek an ambitious trade liberalization with Mexico, assuring that the ground is laid for a North American Free Trade Area by the year 2000. A broadening of markets for US goods, and rationalization of production which can utilize low cost Mexican labor to help reduce the costs of American products are vital ingredients in sustaining goods jobs in the United States. There are some costs in opening trade, but our benefits are entirely dominant.

Trade is not always a problem, it also affords opportunities. Trade can be a two-way street and the advanced countries in Europe have rightly focused on their export opportunities in Greece, Spain and Portugal and now in Eastern Europe rather than being mesmerized by the threat of rising imports. US policy makers should look at Mexico above all as a market, not as a trade threat. The sharp rise in our exports in the past two years makes this point: following the dismantling of Mexico's near-total protection, our exports increased by $10 billion.

We do have an interest in Mexico's prosperity because the country sits on our doorsteps and if its economy works poorly there are negative spill-over effects to the US. We must recognize that Mexican prosperity helps us directly in two tangible ways:

First, Mexico spends 15 cents out of every extra dollar income on our goods, while Asia spends almost none. Next, if Mexico's economy is depressed, waves of immigration will continue into the US, building up unmanageable problems. But if Mexico prospers migration tapers off or at least assumes less dramatic proportions.

For Mexico an ambitious trade deal could become the lever for the much awaited return of flight capital. Of course, for Mexico trade opening is politically loaded. But a trade pact, unlike unilateral trade liberalization, demonstrably creates jobs, and it may work to bring in scarce foreign exchange. That is why it is a worthwhile gamble at this time; if the money does not come back stabilization may unravel and Mexico's opposition will gain the upper hand, undoing much of the accomplishments of the past few years.

Perhaps as much as $50 billion in flight capital are eagerly awaiting in Miami, Brownsville and Switzerland the final signal to go home. Following the Brady Plan and domestic reform, further good news can come on the trade front where our barriers to Mexico's exports (steel, glass, automobiles, textiles, agriculture, etc.) limit its ability to earn foreign exchange. Better access to the US market makes Mexico an attractive investment location relative to competitors in Asia. The mere prospect of a major trade deal would work on confidence and on investment.

Free trade with Mexico is controversial. Among the key issues it raises are three:

- Will US labor interest be hurt?
- Does the negotiation of a free trade agreement with Mexico undermine the traditional US policy stance favoring an open, multilateral trading system?

- Is Mexico sufficiently stable, and is Mexico accepting and welcoming the US as a partner to warrant the closer ties implied by a free trade agreement?

A good case can be made that on each of these issues a free trade agreement with Mexico makes sense. We review these main questions in turn and also a few subsidiary ones.

• DOES A FREE TRADE AGREEMENT WITH MEXICO HURT US LABOR?

The most powerful argument in the US against a trade pact is concern for US jobs: free trade with Canada might be acceptable because their wages are much like our own, if not a bit higher. But Mexico is a low wage country -- manufacturing wages of $1.90 per hour in Mexico compared to $14.50 in the US. With such a wage differential, and a far smaller productivity gap, jobs would risk going south, yet further eroding the US manufacturing potential. US manufacturing employment in 1989 had fallen 7 percent below the levels of a decade ago. Would free trade with Mexico not present the realistic risk of an acceleration of job erosion in the US?

True, some jobs would go south. But they would go south rather than going off to Asia as they have in the past. The choice is not so much to keep jobs here or lose them to Mexico. Competition from low wage countries has been on for more than a decade. The US trade balance in manufacturing has shifted dramatically in the 1980s as shown in Table 1.

Table 1 U.S. Manufacturing Trade With Developing Countries
(Billion $)

	Exports	Imports	Balance
1981	67.3	39.1	28.4
1988	78.0	108.8	-30.8

Notwithstanding pressures for protection, Congress has chosen to keep trade substantially open. As a result import penetration especially from Asia has been very powerful. It stands to reason that Congress will stay with the same principles and policy in the future, resisting protection and betting on the proposition that an open trading system serves the US interests best. If that is the case, the right question to ask about free trade with Mexico is whether we should prefer that when jobs do go abroad that they go South rather than to Asia.

From a narrow US economic interest there is a strong reason to prefer job losses to Mexico than to Asia. There are two reasons for this. First, when a particular manufacturing operation goes south it creates jobs and incomes in Mexico with potentially significant multiplier effects going beyond manufacturing to the entire Mexican economy. When Mexico grows, a substantial portion of the extra income is spent on US goods and services. No precise estimates are available, but it might be as much as 15 cent of every extra dollar of income. The extra spending might be for agricultural goods, capital goods, professional services or consumer goods. In every category the US has the extraordinary advantage of proximity, not only geographic but much more powerfully through communications, advertising and business culture. As a result job losses to Mexico are significantly recaptured in the form of extra export incomes.

The foregoing discussion is far too pessimistic in that it suggests that job losses are a reality even if they have a silver lining. In fact, there is no presumption at all that there will be net job losses. The process of rationalization in a wider market will in itself create new jobs in US export industries to Mexico. Besides, trade integration with Mexico is essential to support a more cost competitive US manufacturing sector. In many industries tasks need not be accomplished all in the same location. Parts production and assembly can take place where each is most advantageous. Drawing low-wage Mexican labor into our operations helps reduce costs and creates room to pay high US wages for the remaining tasks.

The fact that US firms can draw on Mexican labor for part of their operation (while immediately causing job losses) also means that goods can be produced in the US rather than going entirely offshore. This process certainly implies net job gains against the alternative of increasing import penetration. Beyond that, integration with operations in Mexico will make the US export competitive even in third markets.

Moving beyond the direct labor market effects of trade creation and trade diversion, I am confident that in the context of a free trade agreement, once the capital reflow comes underway, Mexico will in fact start running substantial trade deficits for the next decade. The lack of investment in the 1980s and the now depressed living standards will give way to a major upward adjustment in Mexican spending; Mexican wages will rise, the internal market will expand and a good part of the extra demand will spill over to the US in orders for our export industries. That is not true for each and every sector, but it does fairly represent the picture for the US labor market at large and even for manufacturing. By the year 2000 Mexico will have 100 million consumers all ready customers for US goods. In fact, the dramatic increase in US exports in the past two years already suggests an extraordinary potential for US exports.

Table 2 US-Mexican Trade
(Billion $US)

	US Exports	US Imports
1987	14.6	20.3
1988	20.6	23.3
1989	25.0	27.2

The European experience with the integration of Spain, Portugal and Greece into the Common Market shows just how dramatically both groups of countries benefited from the integration: the poor countries obtained financing to run trade deficits and the large countries acquired markets in which to sell their goods.[1] There is not the slightest indication in the European experience that either party would want to return to the trade relations they had prior to integration.

Even with an optimistic assessment of the labor market effects of US there are adjustment issues to be considered. Specifically, a trade agreement should, of course, be phased in over time. This avoids extreme disruption without prejudicing the ultimate outcome. It does not make much difference whether the period is 5 or 10 years; perhaps the best position is to declare that the process is full and complete by the year 2000.

Next, there is no question that in specific industries the adjustment assistance is fully justified. The consumer at large, and the export industries, are beneficiaries of the trade opening but particular workers will be displaced. It is appropriate for society to compensate the losers with a serious adjustment assistance program that dampens the shock and promises to put displaced workers rapidly into attractive alternative employment.

• DOES A FREE TRADE AGREEMENT WITH MEXICO UNDERMINE THE US SUPPORT OF GATT, AND AN OPEN, MULTILATERAL TRADING SYSTEM?

The US has a traditional commitment to open markets and to a multilateral trading system. That approach has served the world economy well and should not be sacrificed. Unfortunately in the public policy debate the line has been drawn in an unproductive manner. We need to review our objectives. Commitment to the Gatt-process has become an objective in itself and an overriding objection to bilateral initiatives, even those that are plainly within the GATT rules and actively practiced in Europe. Anyone arguing for bilateral liberalization falls in the cross fire between protectionists who see the risks for vulnerable industries (and never see the potential of extra exports) and multilateralists who fear for the process.

A US Mexican free trade agreement in no way contradicts the objectives of US commercial policy. It is a move toward freer trade, quite explicitly permitted within the framework of GATT and with good precedent. On a narrow legal front, GATT explicitly allows regional free trade agreements even if there is no intent of political integration. Both the European Common Market (EC) and the European Free Trade Agreement (EFTA) took advantage of this exception to the general GATT rule of most favored nation treatment.

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[1] Note that the wage discrepancy between Portugal and Germany is virtually identical to that between Mexico and the US.

In Europe that process has gone further with the free trade agreement linking now EFTA and the EC, making effectively all of Europe a free trade area. Negotiations are underway at present to extend the full range of Europe 92 measures -- the formation of an unrestricted open market without any barriers -- to the EFTA countries. And discussions are going even further, although they have not translated into concrete steps, to bring Eastern Europe into the free trade zone so as to stop migration flows to the West and offer attraction for direct investment.

In sum, Europe considers that free trading within Europe falls within the rules of the game. Specifically, Europe had not the slightest misgivings about a US-Canada free trade agreement and would have the same reaction to a US-Mexican or a North American free trade agreement. There is no expectation therefore that friction would result with European trading partners.

There is an issue in our relation with developing countries whose trade might be displaced by the opening with Mexico. These losses are not expected to be concentrated on one or a few countries or industries and as a result the very concrete advantages offset the dispersed costs to other countries. Moreover, it is doubtful that these costs are really very substantial. The US is already Mexico's dominant trading partner. There is little prospect of a major displacement of third countries. On the side of US imports from Mexico there will be important effects in all those areas where the US now protects heavily or uses quotas. A transition regime should attend to ease the adjustment burden for countries that are particularly exposed to the risk of trade diversion.

It is critical not to lose sight of what the basic US trade policy stance is: freer trade, improved market access abroad, fewer obstacles to exports and fewer restrictions on imports. A free trade agreement with Mexico does all that; it does so on a narrow front, but precisely that may be the opening for much larger moves for foreign market opening later on.

- IS MEXICO POLITICALLY READY FOR A TRADE PACT WITH THE US?

Mexico today has reached maturity in its attitude toward the US. The leadership, with the President and at least 3 ministers holding economics PhDs from major US universities (and a host opf undersecretaries and lower ranks with that qualification) understands economics superbly well. They recognize that Mexico can exercice its national and cultural independence only if there is economic strength. And economic strength requires excellent working relations with the US. There is no alternative for Mexico but to seek increasing economic ties with the US and in that way become free to enjoy its national identity. This has been possible in Canada where similar fears about sovereignty have always been voiced, and it is now understood in Mexico.

US-Mexican history is tumultuous, from the expropriations and counter-charges of imperialism in the 1930s right up to the debt crisis of the 1980s. Opening to the world as an alternative to increased ties with the US seemed an attractive option for Mexico only a few years back. But the last few years have introduced a radically different style. The Mexican leadership has accepted, following its own business community, that Mexico's interest lie altogether with the US and that Mexio must learn to make the best of it. The view was certainly reinforced by Western Europe's loss of interest in the Western Hemisphere and Japan turning out not to be the reliable, generous partner that might have been hoped.

Mexico has yet to settle down in its domestic politics; there is need for a more active, transparent democracy and Congressional elections next year will be a severe test of the government's willingness to accept a modern, open society. Judging from the record in other areas, dispassionate realism will prevail and the government will allow free, clean elections even at the cost of having to form a coalition government.

There remains some risk of populist, anti-US politics in Mexico. The left opposition has an economic agenda that if one is to judge from its oratory would undo much of the progress of the last few years. Their coming to office would definitely provoke the most massive flight of capital, collapse of the exchange rate, decapitalization of the country. Standards of living would reverse their current path of recovery and might decline massively as has been the case in Peru under similar auspices.

– The best investment the US can make in avoiding that course is twofold. One is to express, firmly but quietly, the confidence that elections will be free and clean. The other is to hasten the establishment of economic ties so that investors can take confidence and repatriate their flight capital. The returning flight capital in turn can finance the growth which is certain to translate into support for middle-of-the-road modernization as conducted now by the Mexican government.

Of course, the US could stay aloof of Mexican developments, keeping the country on probation until more of a record of good relations, stable and open politics and support for market-oriented economics has been established. But there is a risk; without support in building a bridge on which flight capital can return the reforms might weaken. That would ultimately be to the detriment of the Mexican working class, further increasing inequality and left-wing agitation. And that in turn would be severely detrimental to US security interests.

• WILL MEXICO BECOME A BEACHHEAD FOR ASIAN PRODUCERS?

It is quite certain that production would not only shift from the US to Mexico, but much more so, from Asia to Mexico. Asian producers will invest in Mexico to maintain or improve their market access. They may well use Mexico as a beachhead for their penetration of the US market. Once again we need to ask about the alternatives and once again the answer is better that production should go to Mexico than Thailand or Indonesia.

Asian producers are in competition with US located production; they will continue to use low cost labor to outcompete high cost US production. Better that they do it in Mexico where we capture at least some of the second and thirds round benefits than in Asia where we capture almost nothing.

Of course, it is clear that the tariff treatment of goods produced in Mexico is strictly that of a free trade area. Any components brought in from outside, say Japan or Korean, would be subject to US duties applicable to those intermediate goods. There should be free trade in US and Mexican value added, not in transhipped goods from third countries.

- DOES A FREE TRADE PACT WITH MEXICO SOLVE THE MIGRATION PROBLEM?

Finally a trade pact helps on one of the most intractable issues, migration. Creating market access for Mexican goods in the US, and integrating the country in our large market, creates better jobs in Mexico. Just as West Germany eagerly creates trade opening for the Eastern part to avoid the human waves of migration, we also should focus on trade and investment opportunities in Mexico as the most powerful weapon of sharing opportunities without the unwelcome migration.

The more we protect, the lower and the more precarious the standard of living in Mexico, the larger our problems with immigration. We can stick our heads in the sand, but the reality is that Mexico sits on our border.

- WILL THE COMMERCIAL BANKS BE THE ULTIMATE BENEFICIARY OF ALL THIS?

A trade agreement, to the extent that it works as a lever for the reflow of flight capital, will most certainly benefit the commercial banks. Mexico has always been willing to service her debts, although the ability to do so was impaired by the crisis in the early 1980s and the subsequent decline in oil prices. With reflows of flight capital there would be enough resources both to finance imports required for growth and interest payments on the external debt.

In the aftermath of the S&L crisis it is appropriate not to look down on the possibility that trade policy could make the US financial system more stable. Mexican debt accounts for less than $18 billion of the assets of US commercial banks, but there is no reason to discard the potential improvement in the quality of these debts. If Mexican debt is well-serviced the potential for a return to the capital market, and with that more ample trade financing, moves much closer.

- IF MEXICO HAS ALREADY DISMANTLED PROTECTION, WHAT CAN THE US GAIN FROM A FREE TRADE AGREEMENT?

Over the past three years Mexico not only joined GATT but also engaged in a substantial unilateral trade liberalization.[2] Trade liberalization complemented privatization and deregulation as measures to increase domestic competitiveness and productivity and to help reduce inflation. Table 3 shows the progress of trade liberalization. The same progress is reflected in the sharp increase in Mexican imports from the US.

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[2] See USITC Review of Trade and Liberalization Measures by Mexico and Prospects for Future United States- Mexican Relations. Publication No. 2275.

Table 3 Mexican Trade Restrictions
(Percent)

	1985	1989
Import Licence Coverage	92.2	22.3
Reference Price Coverage	18.7	0
Maximum Tariff	100.0	20.0
Average Tariff	23.5	12.5

Source: USITC

Even though Mexican trade is immeasurably more open than a few years ago, tariffs on many categories of imports remain high and there are also quotas in areas of significant interest to the US. Table 4 gives some indication. Automobiles, pharmaceuticals and electronics are the areas where import substitution policies including local content requirement continue to limit the freedom of trade flows.

Table 4 The Mexican Protection Structure: 1989
(Number of Items)

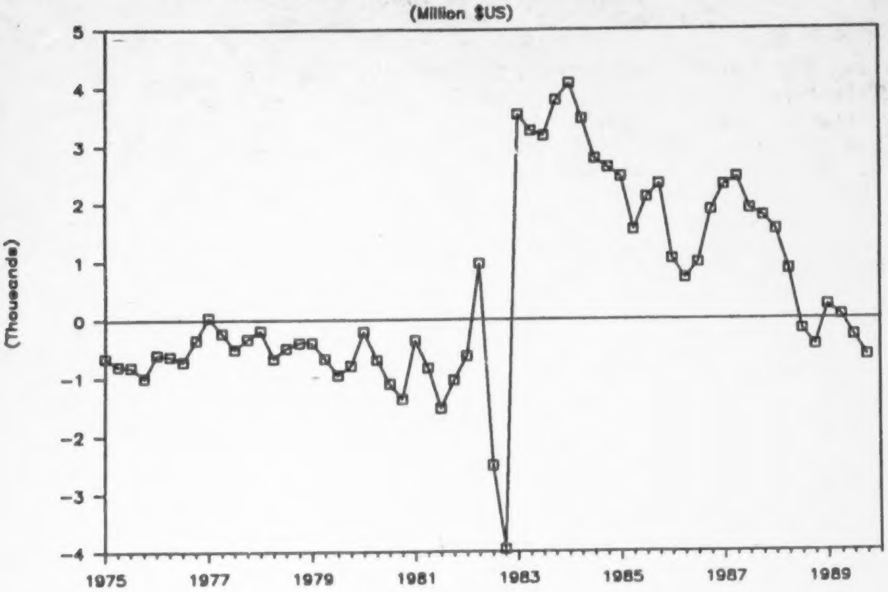
	Duty (%)				
	0%	5%	10%	15%	20%
Tariff Positions Total: 11,949	216	92	6,008	3,251	2.367
Import Licences Required: 326	30	9	178	15	96

Source: USITC

US-Mexican trade today is far more restricted, on both sides, than US-Canadian trade was prior to the US-Canada agreement. There is a clear US interest in freeing up trade flows further and seeing quota and licence practices eliminated. This will open new trade and employment opportunities on the US side. Without the reciprocity of a trade agreement Mexico could clearly not afford to go any further with liberalization. (See Figure) On the contrary, the Mexican trade deficit is such that renewed protection or devaluation might be necessary.

MEXICO: THE TRADE BALANCE

(Million $US)



- IS IT IMPORTANT THAT MEXICAN FOREIGN INVESTMENT LEGISLATION BE CHANGED? Ultimately the US-Mexican free trade agreement should provide for unrestricted flow of goods and services. There is one exception: no free flow of labor, unlike in the European arrangement of the EC where political union is the ultimate objective. But while the free flow of labor should be excluded for the next decade or two, capital of course should be allowed to flow. In fact, part of the motive for a free trade area is to create the incentives for investment to seek out Mexican opportunities and create jobs there.

The Mexican government keenly recognizes the importance of foreign direct investment in providing financing, technology and management as well as market access. That recognition is all the more acute in that debt finance of the 1970s was the single most important reason for Mexico's extraordinary loss of national economic independence, of pride and of living standards in the course of the debt crisis.

In the past few years the Mexican administration has acted on that recognition and liberalized regulations for foreign direct investment substantially. But although in practice there are now only few and insignificant obstacles, the lack of full legal status is a concern to investors. Ultimately this problem needs to be solved, as soon as politically convenient.

In the meantime it is senseless to make much of the issue. Everybody who needs to know already knows that there are no obstacles and that any law can be as easily revoked as it is created; in fact this particular one might be more easy to revoke than to enact.[3]

- HOW WILL MEXICO GAIN FROM A FREE TRADE AGREEMENT?

The Mexican leadership has drawn many lessons from the experience of Spain. This is true for the attitude toward foreign direct investment -- "if socialist Spain could open to foreign investment, why not Mexico" and also in respect to trade policy. When Spain joined the Common Market, in the worst possible macroeconomics conditions of 20 percent unemployment, the country embarked on a boom financed by substantial capital inflows.

Mexico very much needs that boost. Real per capita income declined in the 1980s and real wages have fallen by nearly 50 percent. Free trade access to the US serves two purposes. In the longer run it helps cement a modern free market economy with the best access to scale economies, money and technology. In the short run it is a critical move to give the Mexican and foreign investors yet one more signal of how far Mexico has gone --with significant social consensus-- in its effort to establish economic normality. If money returns it will be easy to establish a modern, open economy and polity. But economics has to be a few weeks ahead of politics, otherwise the risks of a relapse are real. Economic stability and progress is vital for Mexicans, but it is also for the US.

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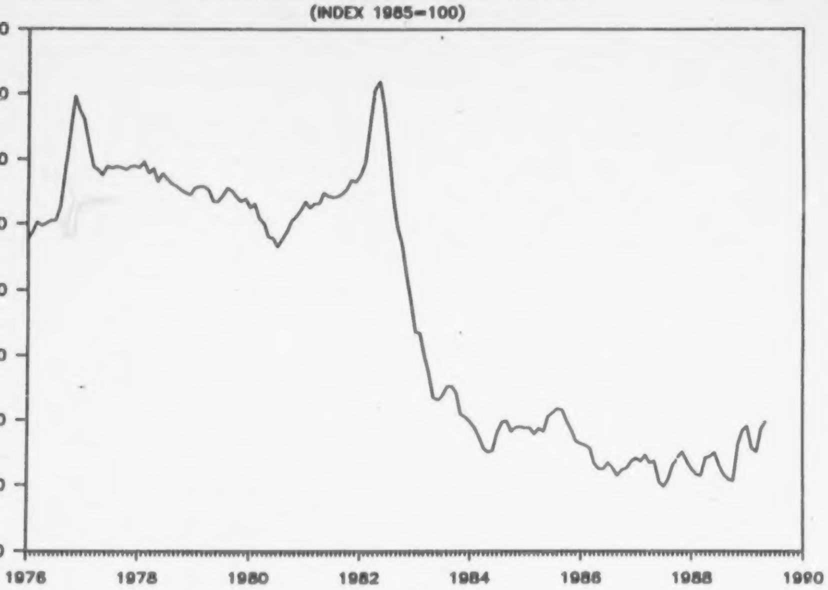
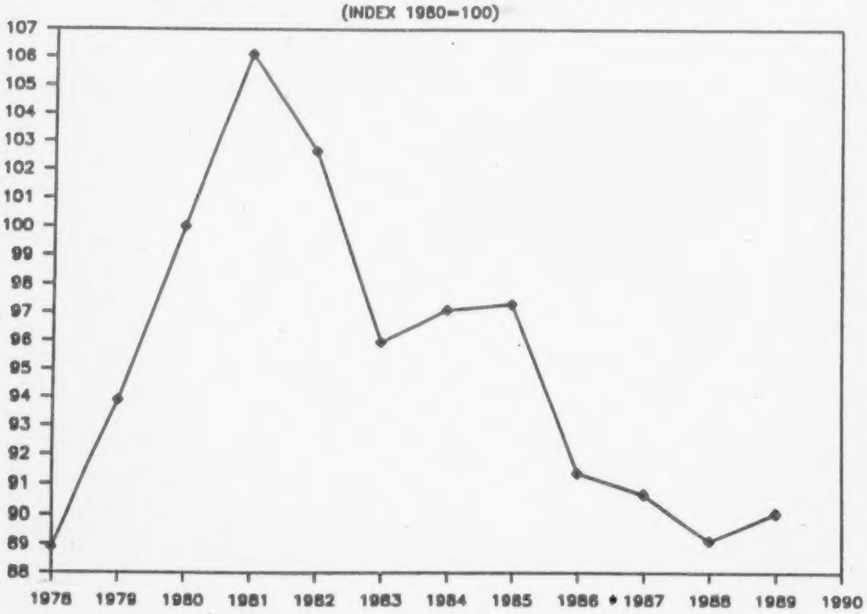
[3] For an update on Mexican practice in the foreign direct investment field see Banco de Mexico The Mexican Economy, 1990, pp.148-152.

A free trade agreement is an important step to help advance their interest and our own. To initiate that process the US should seek a far-reaching trade agreement with Mexico and this should be done the sooner the better. Mexico urgently needs a major trade deal to lock in the gains in modernization by bolstering the confidence of its own citizens and encouraging them to invest.



MEXICO: THE REAL WAGE

(INDEX 1985=100)



MEXICO: REAL PER CAPITA INCOME

(INDEX 1980=100)

Chairman **Gibbons**. Thank you, sir. I know that you have an airline appointment, and whenever you feel that you wish to, you can certainly be excused.

Dr. Weintraub.

STATEMENT OF SIDNEY WEINTRAUB, PH.D., CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. **Weintraub**. Thank you, Mr. Chairman. I will be very brief. You have a written statement for the record.

Chairman **Gibbons**. Yes.

Mr. **Weintraub**. Let me state six points very briefly. They are also points supporting the free-trade negotiation, agreement with Mexico.

The first point to make—it has been made by others, but I would like to emphasize it—is that Mexico has gone through a startling transformation during the past 5 years in its domestic economic structure, and in reducing a good many impediments to trade. These changes are what now make possible free-trade negotiation with the United States.

Second, these changes, the opening of the economy, the economic restructuring that Mexico has gone through, have been accomplished with a vigorous antiinflation campaign going on at the same time and very few other countries, maybe no other country, has accomplished this double feat simultaneously.

Three, there has been a dramatic shift in Mexico's exports away from oil to manufactured goods such that today—this is a point that several others have made—Mexico's foreign sales increasingly resemble those not of less developed countries, but of other developed countries, essentially in manufactured goods.

Because these increases in manufactured exports have now become the engine of growth and are crucial to future economic recovery, Mexico is looking for assurance of access to its main markets.

The fifth point is that a prosperous Mexico is good for the United States.

Finally, let me make the point that while I agree there will be opposition to free trade with Mexico, there will be opposition on both sides of the border. However, these must not be allowed to overwhelm the general benefit that I think will accrue to both populations.

Let me make a few additional points. I will deal with issues in a sentence of two with issues that were raised by members in previous discussions that I would like to elaborate on a bit.

Several people refer to the fact that Mexico's tariffs are now 20 percent. I guess what they are saying is that the ceiling is 20 percent. The average import tariff in Mexico, if you weigh it by imports, is about 9 percent. This begins to compare favorably with the import protection in the United States and other developed countries.

The point I am making is that Mexico within 5 to 10 years has reduced its import protection in a way that took us, since the Great Depression, 40 or 50 years to do. It is a remarkable achievement to keep in mind.

One problem area has been the high rate of inflation. It was averaging 150 a year. It is now averaging somewhere between 20 and 25 percent.

Now, the whole program is not over and nothing is over until it is over. But just keep in mind what Mexico had to do in order to bring down the rate of inflation. I wish to stress fiscal discipline. Now, except for interest payments as a result of past deficits, Mexico's public sector budget is in surplus. We could not say the same in the United States.

The anti-inflation program has been very costly. Real wages in Mexico, wages deflated by inflation, have dropped by about 50 percent in the last 7 or 8 years. Social expenditures, including on education, have gone down. Infrastructure, roads and other facilities, have been deteriorating. Yes, the Mexican Government faces significant political opposition, as some have stated, but so would the Government in the United States if it had to impose hardships of this magnitude.

On the question of manufactured goods, just a few statements. In 1982, manufactured goods made up less than 15 percent of the exports. Last year they were over half. About 80 to 85 percent of Mexican manufactured exports were sent to the United States, and most of that took place between related companies, parents and subsidiaries. This trade has created jobs in both countries.

Let me deal with the question of low wages. At the moment, one of the attractions for Mexico for U.S. companies, particularly in industries where labor makes up an important part of the total product, is low wages. There is no doubt about that. People go there to stay with low wages.

However, Mexico does not look to its future to be a low-wage economy. What Mexico seeks is to increase its productivity and increase wages. If we felt that our future relationship with Mexico would continue as it now is, that Mexico would have low wages and we would have high wages, I don't think that is accurate. I don't agree with people who argue that U.S. wages will come down as Mexican wages rise. I think their wages will go up. But I see the shift in the United States to jobs requiring a much higher educational level, involving higher productivity and greater technology.

Let me look at job creation in the United States for a moment. Our exports to Mexico last year, even though it was our third largest market, amounted to about $300 for each Mexican. Our neighbor to the north is a more prosperous country, and our exports amounted to $3,000 for each Canadian.

If you translate these into jobs at 25,000 jobs to $1 billion of exports, exports to Canada contributed to about 2 billion jobs. Our exports to Mexico accounted for about 600,000 jobs. Exports do create jobs.

There will obviously be imports, but the structure is that our exports tend to be high wage jobs while imports tend to be low wage jobs and I think anybody ought to be pleased to make that tradeoff of higher wage rather than the lower wage jobs.

What is in the free-trade agreement for the United States? I think it is greater prosperity. What is in it for Mexico is also greater prosperity. There will be people hurt in both countries and I hope that you in the Congress would do something to cushion that shock for American workers and communities.

I think this is necessary. However, I don't think you should sacrifice the general benefit in both countries in order to deal with localized problems.

Thank you.

[The statement of Mr. Weintraub follows:]

Statement by Sidney Weintraub
Center for Strategic and International Studies

Before the
Committee on Ways and Means
Subcommittee on Trade

U.S.-Mexico Free Trade

June 14, 1990

Members of the Subcommittee:

I wish to make six points. I will state them briefly at the outset and then develop them subsequently.

1. The Mexican economy has undergone a startling transformation during the past five years and this is what now makes possible a free trade agreement with the United States.

2. This economic restructuring has been accomplished simultaneously with a vigorous anti-inflation campaign, a feat accomplished in few other countries.

3. There has been a shift in exports away from oil to manufactures such that the composition of Mexico's foreign sales increasingly resembles that of developed and not developing countries.

4. Because continued increases in manufactured exports are now crucial to economic recovery, Mexico seeks assurance of access to its main market, the United States.

5. A prosperous Mexico is good for the United States.

6. While there will be significant sensitivities to free trade in both countries, these must not be allowed to overwhelm the general benefit to both populations.

I will elaborate.

1. Consider the following changes, all of which have occurred in the structure of the Mexican economy in recent years. Protection against imports for domestic industries, which was more or less absolute before the 1980s, is now relatively modest. Import licenses, which before were required for 100 percent of imports, now are necessary for less than 20 percent of the value of imports. These, too, will disappear if free trade with the United States is achieved. Tariffs, when weighted by imports, now average about 9 percent. There are no tariffs higher than 20 percent. This level of protection compares favorably with that of the United States. While the weighted average U.S. tariff is lower, the United States retains many duties higher than 20 percent. The United States also has many nontariff barriers which are equivalent to import licensing on products such as steel and textiles and apparel, and in the agricultural area. Neither country is a saint when it comes to removing import protection, but neither is a closed market.

Mexico has bitten the import liberalization bullet. The government faced down those groups that had a vested interest in protection, and I need not remind any of you how arduous a task this is. The United States, after the Smoot-Hawley tariffs of 1930, took several decades to bring down its import barriers; Mexico has accomplished this in less than a single decade. Mexico was also experiencing a great depression when it liberalized imports. Despite dire predictions of wholesale industrial failures from the removal of protection, there have been "few cadavers," as one Mexican industrialist put it to me.

I wish to stress the point that Mexico is now largely an open market. The additional opening that a free trade agreement with the United States (or with the United States and Canada jointly, which is another possibility) would bring would not be cataclysmic, particularly if tariffs are phased down to zero over ten years or so.

Some years ago, when I wrote a book on the possibilities of U.S.-Mexico free trade, the main criticism was that I was (to put it mildly) a madman. How could a country with such a high level of import protection even consider opening its market to unrestricted competition from the United States? The book, published in 1984, was premature, but not by many years. Mexico has now opened its market and is seeking free trade with the United States. My view then was that Mexico was wrong to cling so long to its outdated policy of import substitution, protecting its industry behind high trade barriers, and is now correct in liberalizing its economy and seeking greater assurance of access to its main market.

2. In addition to changing the emphasis of trade policy from import substitution to export promotion, from protection to competition, Mexico is pursuing a vigorous anti-inflation program. This program goes by the initials PECE, the pact for economic stability and growth, or simply the pact. During 1987-88, the increase in consumer prices was approaching 150 percent at an annual rate. The annual consumer price increase is now closer to 20 percent. The goal of the most recent extension of the pact to the end of January 1991 is to bring this rate down to a single digit, which had been the pattern in Mexico prior to the disastrous decade of the 1980s.

Nothing is over until it's over and it is therefore improper to call the pact a final success, but the accomplishments since 1988 have been impressive. The public sector has been sharply reduced; indeed, except for the interest cost from accumulated past debt, the public sector budget is in surplus. This has come about from both expenditure reductions and more efficient tax collections. The trucking industry has been deregulated in order to remove oligopoly profits and introduce competition in this industry. Many loss-ridden government-owned companies have been allowed to fail (such as the Fundidora steel company in Monterrey), and others privatized, such as Mexico's two airlines and many hotels. The government-owned telephone company is up for sale. The motivation in most cases is to shift government expenditures from running companies, many of them losers, to finding resources in a shrinking budget for social and capital expenditures - such as road construction and education. These activities have suffered during the economic troubles of the 1980s.

The import liberalization has been an important part of the anti-inflation campaign. As protection declined, so did what economists call rents, or oligopoly profits. Consumers can now buy imported goods and domestic products must now compete on the basis of quality and prices. This was not true before in Mexico. The head of an important chemical firm in Mexico told me recently that he has had to hustle as never before to meet import competition and in the process his firm has become much more efficient.

The anti-inflation program has not been without cost. Wages adjusted for inflation have declined by about 50 percent during the past decade. Social expenditures - on education and health care, for example - have lagged. The informal market has grown as workers must augment their meager real incomes. There is always an alternative in devising government economic policies, whether to live with inflation or to seek to drastically reduce it, thereby altering the inflation tax that eats away at the very structure of a society. This is never an easy choice, but the Mexican authorities have chosen to fight inflation rather than resort to populism.

3. Crude oil exports were 78 percent of total Mexican export value in 1982; last year, 1989, they were less than 30 percent. Manufactured exports, by contrast, shifted from 14 percent of total export value in 1982 to more than 55 percent in 1989. More than 80 percent of Mexico's manufactured exports go to the United States. These two phenomena - the salience of manufactured goods in Mexico's export growth and the overwhelming reliance on the U.S. market - go a long way in explaining Mexico's motivation for seeking free trade with the United States.

Much of the trade in manufactured goods between the two countries takes place between related companies, such as a parent and its subsidiary. Precise data on the proportions are not available, but there is evidence from a variety of studies that more than half of Mexico's manufactured exports to the United States is to a related company. This reflects the co-production that has emerged between the two countries. Active ingredients are shipped to Mexico for incorporation into pharmaceutical products; engines are sent to the United States for use in automobiles; electronic equipment in Mexico goes into U.S. computers. When trade takes place in this manner, in intermediate inputs and not only final products, low tariffs are needed to keep down total costs. In these circumstances, imports and exports are not completely separable transactions, but part of the total strategy of multinational corporations.

Many of these intermediate products come from maquiladora, the plants in Mexico, mostly along the border, that receive inputs from the United States, add labor to them, and then ship the resulting product back paying the U.S. duty only on the value added in Mexico. About half the value of U.S. imports from the maquiladora represent value added in the United States, and the other half value added in Mexico. But the pattern of co-production extends well beyond the maquiladora. The value added in maquiladora in Mexico is now close to $3 billion, while value added in Mexico from other manufactured exports is more than three times this amount. Mexico's goal is to incorporate the maquiladora into the total industrial production system of the country, as other industrializing countries did earlier, such as South Korea and Taiwan.

The point I wish to stress is that U.S.-Mexico integration is proceeding apace in the industrial field, with or without free trade. The purpose of free trade is to affirm that this will continue so that investors can act on the basis of this assurance.

4. When the Mexican economy faltered during the 1980s, the stimulus to production came more from the export sector than the internal market. As Mexico recovers, the impulse for growth will come from both. Put differently, a reversion to almost exclusive reliance on the domestic market - the policy followed before 1982 - would be a recipe for a future economic catastrophe. Investors in Mexico in the past looked almost exclusively to the domestic market for their returns; they now look both inward and outward.

Mexico has two important attractions for investors, whether they are domestic or foreign. One is its location; the United States is a natural market for Mexico. The second is its low wages, about a tenth of average wages in the United States. Wages are not the only cost of production - in many industries, they are in fact a minor part of total costs - but they do matter in a number of areas. The growth of maquiladora can be attributed to a combination of these two attractions, location on the U.S. border and low wages.

However, Mexico does not seek sustained export success through low wages; this would be a formula for permanent underdevelopment. What is wanted is an increase in Mexican productivity because this is the only way to raise wages in a non-inflationary manner. What Mexico wants from free trade is investment in plants of sufficient scale and advanced sophistication to permit raising real wages. This type of investment is not possible across a broad spectrum of industries in a market of less than $200 billion, which is Mexico's current gross domestic product. However, the lure of a combined market of more than $5.5 trillion - a potential market almost 30 times larger - can attract this investment. Mexico does not seek a maquiladora future; it seeks an industrial future where competition takes place more on the basis of high productivity than low wages. If this is accomplished, if Mexico becomes truly competitive, it would then be in a position to diversify markets. Free trade with the United States does not really tie Mexico's future to only one country. Instead, free trade should be seen as the path to greater competitiveness in all markets.

The idea of free trade is not just to increase exports, but rather to use trade as a way to increase incomes and employment. To the extent this is accomplished, one should expect Mexican wages to increase. Because of its lower starting point, these increases should be more rapid than in the United States, as occurred in Asia in its development process, and in Europe as it recovered after World War II. I see Mexican labor as being one of the clear winners of a successful free trade agreement with the United States.

5. This being said, the next logical question is: What's in it for the United States?

U.S. exports to Mexico in 1989 were $25 billion. While this made Mexico the third largest country market after Canada and Japan, the figure represented less than $300 for each Mexican. By contrast, U.S. exports to Canada in 1989 were $75 billion, or about $2,900 for every Canadian. If we translate these figures into jobs (at 25,000 jobs for every $1 billion of exports, a ratio often used by the U.S. Department of Commerce), exports to Canada helped to create some 1.9 million jobs in the United States, whereas exports to Mexico last year contributed only 625,000 jobs. Our imports from these countries obviously contributed to their job creation. However, salaries in U.S. export industries are generally substantially higher than in industries competing with imports.

The key point is that a prosperous neighbor contributes to U.S. economic health. A poor neighbor creates only problems, such as social unrest and the flow of undocumented immigrants seeking opportunity in the United States. Unauthorized immigration from Canada is not extensive; unauthorized immigration from Mexico is. This, like trade, is a consequence of relative well-being.

A free trade negotiation will undoubtedly deal with more than trade in goods. As in the U.S.-Canada free trade agreement, the negotiations with Mexico should deal with trade in services, investment, agriculture, energy, intellectual property, dispute settlement, and other areas. Mexico clearly hopes that free trade with the United States will encourage foreign investment. If free trade also raises confidence in Mexico's future, it should encourage repatriation of Mexican capital that left the country during the 1980s. Mexico's recent reprivatization of banks was designed to stimulate this confidence on the part of investors. Like opening the economy generally, the bank reprivatization should be seen as an earnest of Mexico's willingness to take the hard decisions to restore economic health.

Both the political opposition on the left and leading Mexican officials have suggested that a free trade agreement should include generally free movement of labor to the United States. My own view is that the Mexicans should be disabused that this is a feasible outcome. If Mexico pursues this position, the negotiations could be stillborn. If what Mexico seeks is some understanding about protecting the human rights of its workers in the United States, this is negotiable. So is the movement of nationals in both directions for managing businesses established in the other country.

What's in it for the United States is essentially the same as what's in it for Mexico - economic stimulus that can raise incomes and create jobs. Mexico has more at stake; its economy starts from a much lower base. But the U.S. economic stake in a wealthier Mexico is significant.

There are also evident geopolitical reasons for having a stable, prosperous neighbor. These should predispose the United States to supporting a Mexican request for free trade, but not by themselves justify an agreement. An economic agreement of this type must, in my view, be justified on economic grounds - on the basis that it is good for the U.S. economy.

6. I will turn now to my last point. Free trade creates winners and losers. Some industries will lose out to foreign competition, and others will gain from larger markets. Some workers will lose jobs, others will gain them. Consumers will almost invariably gain from removal of import protection; the purpose of protection is to raise the cost of goods and services. The analytical issue is whether the gains from free trade will exceed the losses. They almost surely will. I would recommend that some careful economic studies be commissioned to measure the gains and losses.

However, I do not wish to ignore the losers in the United States. We will owe them compensation. This can take a variety of forms - adjustment assistance that is more real than that provided in the past and more effective retraining for those able to take advantage of this. We do not owe them the sacrifice of the general good, however, so that their problems can be ameliorated.

Each of you, and your colleagues, will be subjected to great pressures to exclude particular products from free trade negotiations. Mexican negotiators will face the same type of pressure. The result undoubtedly will be compromises in the negotiating process; a free trade agreement to be consistent with the articles of the General Agreement on Tariffs and Trade need include only "substantially all" trade, not all trade.

I will conclude with two opinions. The first is that free trade with Mexico opens an exciting prospect for the general good of the two countries. The second, which I have not discussed in this statement, is that I believe free trade should be expanded to include the three countries of North America - Canada, Mexico, and the United States.

Chairman GIBBONS. Thank you, Dr. Weintraub. I hope when we get into the question and answer period, you can give me some good advice on how to improve the system that we now have of relieving suffering where we have got dislocation.

I think if we could get that out of the hearing today, we might have accomplished something really worthwhile.

Let's go now to Mr. Asencio.

STATEMENT OF HON. DIEGO C. ASENCIO, CHAIRMAN, COMMISSION FOR THE STUDY OF INTERNATIONAL MIGRATION AND COOPERATIVE ECONOMIC DEVELOPMENT

Mr. ASENCIO. Thank you, Mr. Chairman.

The Commission for the Study of International Migration and Cooperative Economic Development was created by the Immigration Reform and Control Act of 1986. Our mandate has been to consult with the governments of Mexico and other countries of the Western Hemisphere where our unauthorized immigrants come from to determine what changes in U.S. immigration and economic policies might tend to relieve the pressures that cause people to leave their homes. In other words, we were charged with looking at the push factors of immigration.

Our bipartisan commission's overwhelming conclusion was that the only economic instrument that could positively affect the quality of life of our neighbors to the south in the short term is expanded international trade.

Therefore, we have come out solidly for a free-trade agreement with Mexico and for support to the various trade arrangements; that is, the Caribbean Common Market, the Latin American Free Trade Area, all of these things should be looked at.

We are solidly in favor of a free-trade agreement. We believe that it represents long term the only answer to what we consider right now to be the exploitation of unauthorized migrants to the United States, and it eventually is something that will benefit both societies both economically and socially.

The other conclusion that we have come to is that it is necessary for immigration policy to be closer to the frontal lobe of the executive branch in the sense that right now immigration policy is in the bailiwick of agencies where it is a secondary function. Trade and other policies often have tremendous demographic impacts and decisions are made without regard to immigration impacts.

We believe that it would be interesting to have something like an immigration impact statement that would mandate government agencies after they have considered all of the domestic political implications of a particular trade policy, to also consider what that trade policy would mean in terms of employment creation, in terms of illegal immigration to the United States.

We think that the free-trade agreement idea is probably the only reasonable one in terms of affecting illegal immigration to the United States from Mexico. We are also particularly concerned with the development of the border area between the United States and Mexico.

It is the poorest part of the United States and the part that has most of the Hispanics in our society. We believe that there should be a joint approach between Mexico and the United States to border development and more serious attention and resources should be applied to that particular area.

Again, following Professor Weintraub's lead in terms of responding to some of the issues that have already been addressed by some of the other panel members in some of the questions, I am not convinced that all of the impact in terms of exports from Mexico will result in job losses.

I think there would be a significant component that would, in fact, replace imports already being made from other parts of the world. It would seem to me that that would not have a job loss effect.

In addition to that, I think there is no question that it would result in job creation over the long term. I again echo Professor Weintraub in saying that some sort of adjustment assistance should be considered but we should keep in mind the fact that there is an unusual propensity on the part of Mexicans and people of the south to consume American products so that their increased prosperity should, in fact, result in our ability to export more products to the south.

Our report, to both the Congress and to the President of the United States, Mr. Chairman, will be issued in mid-July. We did present a draft of the report to President Salinas in mid-May. We have taken into account his views, his considerations in our report and I want to echo a phrase that he used here and that I am sure he borrowed from us; that is, we think that the only alternatives in terms of Mexico and the United States is to accept their goods or to accept their people.

Thank you, sir.

Chairman GIBBONS. Thank you, sir.

Mr. McKinney.

STATEMENT OF JOSEPH A. McKINNEY, PROFESSOR OF ECONOMICS, AND DIRECTOR OF RESEARCH, REGION NORTH AMERICA, BAYLOR UNIVERSITY, FOR HIMSELF AND GLEN E. LICH, DIRECTOR, REGIONAL STUDIES, BAYLOR UNIVERSITY, WACO, TEX.

Mr. McKINNEY. Thank you, Mr. Chairman, for the opportunity to address this subcommittee on this important issue.

We are of the opinion, as previous witnesses have been, that increased trade between the United States and Mexico will greatly benefit both nations. Mexico has taken bold steps to liberalize her international trade and to begin privatizing her economy.

These measures have greatly enhanced the prospects for Mexico's economic development. Performance of the Mexican stock market during the past year indicates a new level of confidence by investors in prospects for the Mexican economy.

The ultimate success of these measures, however, depends heavily upon Mexico's continued and secure access to the United States market. The best way to assure Mexican access to the United States market is through a free-trade agreement on the order of the United States-Canada Free-Trade Agreement and eventually linking Canada into a North American free-trade region.

When such an agreement is in place, we would expect to see a significant inflow of capital into Mexico from Japan, the European Community, and other sources, as well as repatriation of flight capital back into Mexico.

This inflow of capital should boost Mexico's rate of economic growth while at the same time alleviating the burden of Mexico's heavy external indebtedness. In addition, Mexican industry will become more efficient as a result of increased competition. At the same time, we expect significant benefits to the United States from a free-trade agreement with Mexico. Illegal immigration to the United States from Mexico varies inversely with the level of economic prosperity in Mexico. Thus, a higher rate of economic growth in Mexico with improved job opportunities there should help to alleviate the illegal immigration problem.

A more prosperous Mexico will provide increased export opportunities for United States firms. The United States is by far the largest supplier of foreign goods to Mexico; and higher income levels there will increase the demand for United States goods.

The dollars earned by Mexican firms in selling to the U.S. market will make their way back in the form of increased purchase from United States firms by Mexican consumers and producers or to service the Mexican external debt.

Furthermore, an integrated North American market will improve the competitiveness of the United States in the world marketplace. The United States can expect to face increased competitive challenges from Japan and other parts of Asia, as well as from the unified European Community market. The production sharing made possible by a unified North American market can help us to meet these challenges. In our opinion, the optimal way of achieving these benefits of economic immigration is through a full-fledged free-trade agreement with Mexico.

We are not referring here to either a common market with its free factor mobility or to a customs union with the common external tariff, simply a free-trade area.

Undeniably, there will be some adjustment cost in labor intensive industries as a result of free trade with Mexico. But these costs should be manageable.

Gradual lowering of trade barriers allows adjustment at low cost through natural attrition and retirement of workers, as well as depreciation of capital equipment. Where a particular industry or a community is hard hit, adjustment should be eased through generous trade adjustment assistance.

So, again, in summary, we believe that the United States-Mexico free-trade agreement has important potential benefits for both countries. However, the effects of such an agreement would be far-reaching and would not be limited to the realm of economics.

Therefore, we would recommend the establishment of a binational United States-Mexico commission capable of addressing not only economic, but also social, cultural, environmental, and political issues arising out of the prospective free-trade agreement.

Thank you, Mr. Chairman.

[The joint statement of Joseph A. McKinney and Glen E. Lich follows:]

FOR THE CONGRESSIONAL RECORD

STATEMENT OF THE

REGIONAL STUDIES CENTER
BAYLOR UNIVERSITY

BEFORE THE

TRADE SUBCOMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES
WAYS AND MEANS COMMITTEE

ON

UNITED STATES – MEXICO ECONOMIC RELATIONS

JUNE 14, 1990

Joseph A. McKinney and Glen E. Lich

Summary

Our position is that increased trade between the United States and Mexico will greatly benefit both nations. Mexico has within the past five years taken dramatic steps to improve the country's economic performance. The success of these measures depends heavily upon secure access by Mexico to the United States market. In addition, the United States stands to benefit in numerous ways from increased prosperity in Mexico. These benefits range from alleviation of illegal immigration to increased export opportunities for United States firms. The competitiveness of United States industries in the world market could also be improved through enhanced opportunities for production sharing made possible by a United States-Mexico free trade area.

We further contend that the optimal way of improving trade relations between the United States and Mexico is through negotiation of a full-fledged free trade agreement. The sectoral agreements which have been proposed are problematic, in that such agreements must obtain a waiver from GATT which is not likely to be forthcoming. More importantly, the sectoral agreements of greatest interest and benefit to each nation would encounter insurmountable political opposition. The negotiation of a free trade agreement would provide for a balancing of political interests in a way that sectoral negotiations could not. The economic impact of such an agreement could ensure that Mexico's economic reforms work to the advantage of both that country and the United States.

Background

The trading relationship between the United States and Mexico has been evolving rapidly during the past five years. Before 1985, Mexico's trade and industrialization policy had for many years followed the import substitution model. Mexico's trade policy was therefore characterized by pervasive controls upon imports. Despite some attempts at trade liberalization by the Lopez Portillo administration in the mid-1970s, Mexico considered and rejected membership in the General Agreement on Tariffs and Trade (GATT) as recently as 1980.

By the mid-1980s, however, Mexico's economic fortunes drastically changed when the price of petroleum plummeted; in the resultant economic crisis, Mexico faced a severe shortfall of export earnings coupled with the crushing burden of external debt.

In a stunning break with previous import substituting industrialization policies, Mexico began in 1985 to liberalize trade policies. The country joined GATT in 1986 and engaged in general between 1985 and 1988 in one of the more dramatic unilateral trade liberalizations in the history of world trade. Import tariffs were slashed to an average rate of about six percent, with a maximum rate of twenty percent.

Nontariff barriers to trade were also significantly reduced. Import permits, formerly required of all products and often not issued if there were a competing domestic industry, were eliminated for most products. Official prices, which provided the basis for customs duty assessment and often were set at many times the world market price, were abolished. In addition, Mexico took steps to liberalize foreign investment regulations and to facilitate economic interaction with the United States in other ways, such as through coordination of customs procedures with the United States.

As a result of Mexico's changed attitude toward international trade, the United States and Mexico signed a "framework agreement" in November of 1987 in which the two countries set forth certain governing principles for trade and investment relations. This agreement did not involve substantive concessions by either party. Rather, it established a consultative mechanism whereby each country agreed with the other to discuss any trade or investment matter of concern within thirty days. The countries also agreed to enter into negotiations within ninety days of the agreement on a number of issues of immediate concern to the two nations. These negotiations resulted in agreements to liberalize trade in steel, certain alcoholic beverages, and textiles.

During the visit of President Salinas to the United States in October of 1989, a new "Understanding Regarding Trade and Investment Facilitation Talks" was signed. A part of this agreement was an action plan specifying that the two nations would identify in November of 1989 certain topics as candidates for future bilateral negotiations. The topics chosen were "petrochemicals" and "standards, regulations, testing and certification." Talks held in March of 1990 were to determine whether to initiate negotiations, with any such negotiations to be completed by November of 1990. Instead, at a meeting in February of1990, United States and Mexican trade officials focused their discussions on the United States statutory requirements for entering into negotiations for a comprehensive free trade agreement.

Discussion

1. Before a comprehensive free trade agreement could be negotiated, Mexico must first request such an agreement with the United States. Then the administration must request permission to negotiate from the House Ways and Means Commitee and the Senate Finance Committee. Each of these committees has sixty legislative days to render a decision upon such a request.

2. While Mexico has not yet requested a free trade agreement with the United States, we consider it highly probable that such a request will soon be forthcoming. We are further of the opinion that, when such a request is made, the administration's request for permission to negotiate such an agreement should be granted by the appropriate Congressional committees.

3. Mexico's reasons for being interested in a free trade agreement with the United States are much the same as those which motivated Canada to enter into a free trade area with the United States. The United States is by far Mexico's largest trading partner, providing a market for approximately two-thirds of Mexico's exports. Given Mexico's heavy dependence on the United States market, continued and certain access to this market

is essential to the success of Mexico's more outward-oriented economic development strategy.

4. While the United States market has been relatively open to Mexican products, Mexico is vulnerable to changes in United States trade laws or to changes in their implementation. For example, eligibility of Mexican products for preferential treatment under the United States Generalized System of Preferences was substantially reduced in 1987 because of disagreement over the issue of intellectual property protection. A variety of Mexican industries sell some of their output in the United States market but have not been serious enough competitors to have attracted much attention to date. However, as they begin to make inroads into the United States market as a result of Mexico's more export-oriented trade and development strategy, domestic industries can be expected to demand protection.

5. A further powerful incentive for Mexico to negotiate a free trade agreement with the United States is the likely displacement of Mexican exports as a result of the free trade accord between the United States and Canada. An estimated twenty percent of Mexican exports to the United States are directly competitive with products supplied from Canada. As the tariff reductions of the United States-Canada accord are phased in, Mexican products will be placed at an increasing disadvantage.

6. Thus far the proposals for liberalizing trade between the United States and Mexico have pointed toward the negotiation of sectoral accords. While such sectoral accords could possibly be a constructive interim step in the direction of a free trade agreement, we consider the sectoral approach to trade liberalization to be less than optimal for several reasons.

> First, unless a GATT waiver can be obtained, which is unlikely, tariff concessions via sectoral negotiations will have to be extended on a most-favored-nation basis to other countries. The extension of concessions to other countries will dilute the specific benefits of the concessions to the United States and Mexico. We appreciate fully that multilateral trade liberalization is generally preferable to bilateral liberalization in that it avoids trade diversion. However, we consider the current economic developments in Mexico to be sufficiently important to justify concentration of United States trade liberalization benefits upon that country.
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> The effects of a United States-Mexico free trade accord upon other countries, specifically the Caribbean countries and the other Latin American countries, are a matter of some concern. However, Mexico's trade relations with Latin America and the Caribbean are much less extensive than commonly assumed. Less than ten percent of Mexico's exports go to these countries.
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> Several of the Latin American and Caribbean countries are heavily dependent upon the United States market, and there might be some trade diversion from these countries to Mexico. This should be minimal, however, considering the already low tariffs of the United States, and the fact that the countries under question are generally eligible for preferential treatment under the Generalized System of Preferences. In any case, the United States could deal with any serious trade diversion from these countries through unilateral lowering of tariffs on the products in question. That is one advantage of entering into a free trade area as opposed to a customs union since it does not establish a common external tariff.
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> Second, sectoral negotiations are problematic in that finding sectors which can be combined into a balanced and reciprocal agreement between the United States and Mexico would be exceedingly difficult.
>
> Finally, sectoral agreements in areas most important to Mexico are likely to run into stiff political opposition in the United States. The idea of a comprehensive trade and investment agreement has the potential for catching the imagination of the American public, which could provide momentum necessary for genuine trade liberalization. Businesses wishing to take advantage of trade and investment opportunities in Mexico could counterbalance the entrenched interests of sunset industries in the United States opposed to trade liberalization.

7. We cannot deny that the establishment of a free trade area with Mexico would require some economic adjustments. Some Mexican industries could not compete with their United States counterparts, and thus would have to contract. Likewise, some of the

more labor intensive and lower wage industries in the United States would have trouble competing with their Mexican counterparts, and also would have to contract. More likely than the disappearance of industries in either country, however, is an increase in production sharing by companies in the two countries. United States firms could have labor-intensive aspects of their production carried out in Mexico, while Mexican firms could have the more capital- or technology-intensive aspects of their production processes carried out in the United States.

8. In any case, the degree of adjustment required should be well within limits of tolerance in each country. Mexico has already gone through the most difficult part of the adjustment by virtue of the country's unilateral reduction of tariffs and other trade barriers. Since Mexico now has a relatively uniform tariff structure, the impact of eliminating tariffs could be managed through exchange rate policy with a minimum of trauma.

In any case, the removal of tariffs could be, and should be, staged in gradually. Gradual lowering of tariffs is common practice after a round of multilateral trade negotiations; and, likewise, the tariff reductions of the United States-Canada Free Trade Agreement are also being gradually phased in. Gradual removal of protection often allows the labor force in affected industries to be reduced at a rate no greater than would otherwise occur through attrition, as well as the depreciation of capital equipment over time. In cases where a particular industry or community is adversely affected by removal of trade barriers, the impact can be cushioned through the provision of trade adjustment assistance.

9. As for the United States, with a current average tariff rate of four percent or less, and with many products from Mexico already entering duty free under the Generalized System of Preferences, the total elimination of tariffs on products from Mexico should be accomplished with a minimum of adjustment costs. Both countries should end up with a more economically rational and efficient industrial structure which would more than pay for any short-term adjustment costs. Economic integration in other parts of the world have shown that it lends an economic dynamism which stimulates economic growth, so that there is potential gain for all countries involved and for all economic sectors of the economies involved. The jobs lost in low wage import competing industries in the United States should be offset by the creation of higher wage jobs in the export sector.

10. Liberalization of the agricultural sector will be particularly difficult, as it is has proved to be in the Uruguay Round. Because of the problems involved, agricultural trade was not fully liberalized in the United States-Canada Free Trade Agreement. Elimination of tariffs on agricultural products over a ten year period was a part of the agreement, as was the elimination of some nontariff barriers to trade. However, given the global nature of agricultural trade problems, most of the issues were left to be resolved in mulitlateral trade negotiations.

11. For the same reasons, complete liberalization of agricultural trade between the United States and Mexico may well not be feasible in the short run. However, agriculture should be a part of the negotiations and pushed to the limit of what is politically feasible since some progress in this area should be possible.

12. Some of the more important trade issues for the United States involve various nontariff barriers to trade in the areas of services, government procurement, intellectual property protection, and regulation of investment. These are all sensitive issues for Mexico. However, given the present climate of reform in Mexico, more may now be accomplished in these areas than would have been thought possible only a short time ago.

Conclusions

For reasons mentioned earlier, a free trade area would be preferable at this stage to either a customs union or a common market. The lack of a common external tariff, while it requires some monitoring costs to avoid trade deflection, provides a mechanism for avoiding trade diversion through the lowering of selected tariffs by the importing countries. Given the difference in levels of economic development and per capita income between the United States and Mexico, free mobility of labor is out of the question at this time. Mexico may insist upon the mobility of labor services in certain industries such as construction. But demographic changes occurring in the United States will soon create a need for some imported labor services, so such a request by Mexico could be reasonably accommodated.

If Mexico does request the negotiation of a free trade agreement with the United States, Canada will desire to be included in the negotiations. Given the special trading relationship which Canada has with the United States, it is only appropriate that Canada be included. The United States-Canada free trade accord has many innovative features, such as its dispute settlement provisions, which could well provide the pattern for incorporating Mexico into a trilateral agreement so as to form a *North American free trade region*. While opposition to such a trilateral agreement can be expected from some quarters in Canada, particularly from organized labor, there is potential benefit in it for all involved.

While the approval in principle of a free trade agreement between the United States and Mexico would be appropriate at any time, substantive negotiations toward such an agreement should not begin until after the conclusion of the Uruguay Round negotiations. Both the United States and Mexico should be exerting all of their negotiating energies toward the best agreement possible in the Uruguay Round. The Uruguay Round negotiations would only be complicated by starting to work on a United States-Mexico bilateral accord before their conclusion.

The United States is the only industrially advanced country in the world bordering on a Third World country. **For a wide variety of reasons, economic and noneconomic, a prosperous Mexico is in the enlightened self-interest of the United States.** There is nothing more significant that the United States could do to aid the economic development of Mexico than to enter into a free trade agreement with Mexico. Assured access to the United States market for Mexico should attract a tremendous amount of foreign capital and technical skills into Mexico, from Japan and elsewhere, providing a dramatic boost to her economic growth. Since Mexico is our third largest export market, with a high income elasticity of demand for United States products, Mexican prosperity would substantially increase United States exports.

Finally, the integration of the United States, Canada and Mexico into a free trade region should increase the competitive strength and influence of the three countries in the international economy. As the European Community moves progressively toward completion of its internal market, formerly protected European industries will become more efficient and thus more competitive with those of the United States. Japan and several other Asian countries can be expected to provide an increasing challenge to United States firms in the years ahead.

The complementary nature of the economies of North America—with abundant natural resources in Canada and Mexico, abundant skilled labor, capital and technology in both Canada and the United States, and abundant unskilled and semi-skilled labor in Mexico—creates a natural integrated trade region. The possibilities for specialization within the region are great, with beneficial effects upon the competitiveness of the industries involved.

From an economic point of view, the optimal free trade area is the entire world. But so long as that is inattainable, regional trading blocs will be a part of the world trading scene. The United States will be in a stronger position on the world economic scene if its economy is further integrated with those of its neighbors, Canada and Mexico. The possibility of forming a **North American Free Trade Area** provides the rare opportunity for each of the countries involved to contribute to the success of its neighbors while at the same time advancing its national interest, economic welfare, and security.

Recommendation

In light of the probability that the most difficult problems of effecting and sustaining such an agreement with Mexico will arise in connection with immediate short-term issues of how free trade would promote the national interests of *both* Mexico and the United States; in light too of the very high importance to *both* countries of sustained positive developments in terms of security and growth across the complete spectrum of relations between the two countries; and, third, in light of the broad impact of such an agreement on binational relations, we recommend the establishment of a

United States–Mexico Commission

capable of addressing not only economic but also social, cultural, environmental, and political issues. This commission will require adequate resources and sufficiently high priority on the part of both governments to empower it to serve as an *effective* coordinating center for the wide range of issues related to free trade negotiation, for additional issues which one or both countries require to be addressed in conjunction with trade negotiations, and for the various single-subject bilateral boards and agencies already in place which effect what is sometimes at best a disjunctive United States–Mexico policy.

Chairman GIBBONS. And Mr. St. John.

STATEMENT OF JOHN J. ST. JOHN, PRESIDENT, ST. JOHN-VILLARREAL ASSOCIATES, FAIRFAX, VA.

Mr. ST. JOHN. Thank you very much, Mr. Chairman.

My paper can be summarized in three main points.

The first: Mexico's importance to the United States. Mexico, with its 85 million people, is the 11th-most populous country on the earth. It is our third-most important export market. Our second-most important supplier of strategic raw materials; our largest source of immigration.

There is a high degree of cultural and economic integration that has already been achieved along our common border and if one considers the necessity of maintaining along that 2,000 mile common border, a stable, prosperous, friendly, nonmilitarized neighbor that poses no threat to us, one can realize that there is no country in the world today, none, that is more important to the national well-being of the United States.

My second point is principally that the changes that have taken place in Mexico, starting during the de la Madrid administration, and becoming more intensified with the current President, have been changes of the most sweeping and fundamental sort.

I think we would lose a dimension if we focused only on the technical nature of those changes, and I try in my paper to look behind those and give an idea of the fundamental nature of the changes.

I don't want to take your time to go into that now, other than to say that from Mexican history—and it seems to me that Mexicans feel their national history perhaps more than any other peoples that I know of—a set of rather rigid principles of Mexican governance have emerged.

Principles that no Mexican President is able to disregard and that they can only reinterpret at considerable political risk.

I think it is the political genius of the current generation of Mexican leaders that they have found a way to preserve the essence of those principles while shifting away from most of the protectionist economic policies that have grown up around them over the years.

Moreover, they have also found a way to feel freer to join in cooperative formal arrangements with the United States, something that was taboo in the past. Many taboos are crumbling, from Mexico's traditional aversion to foreign direct investment to the reestablishment of relationships with the church and the Vatican, to the privatization of Mexican firms such as Mexicana airlines, and possibly even certain parts of Pemex, and the use of English by President Salinas in an interview this week on a major U.S. national television network.

But these changes are not limited just to the economy and to external affairs. Salinas has publicly recognized that Mexico's political institutions and traditional practices are no longer adequate to the needs of a modern Mexico.

Whatever the political shape of Mexico tomorrow, it seems clear that it will be different, more open and more pluralistic.

It is remarkable to me the degree of success that the Salinas administration has had in 18 months of office in generating a national consensus for this program. Nonetheless, this program will not really be out of the woods until the economy has definitively recovered.

But it seems to me that a Rubicon has already been crossed. Whatever happens, it will no longer be possible for Mexico to return to the practices of the past either on the economic side or on the political.

My final point, Mr. Chairman, and the major point, is that this is a moment of opportunity for the United States, as well as for Mexico, and that it is very important for us to be clear about what is at stake.

Our trade interests, important as they are, are only a part of the picture. The main issue is whether the United States is going to grasp an historic and perhaps fleeting opportunity to materially advance a whole range of major United States interests for the foreseeable future.

The conclusion of a free-trade agreement between the United States and Mexico would be an enormous confidence-building measure.

Foreign investment capital, which has thus far been very hesitant about Mexico despite the extensive recent liberalization of the pertinent regulations, would almost certainly flood in to create the productive capacity needed to take advantage of Mexico's new access to the United States market.

Much of this would be returned Mexican flight capital. Employment should soar, and I am in agreement with my fellow panel members here that employment in the United States should benefit, as well.

Although employment increases in Mexico would not early on be anywhere near sufficient to soak up their huge labor pool, it should make an appreciable dent, and we probably will have some upward impact on wage levels, as well.

This employment creation would relieve some of the pressures that lead to illegal immigration, and perhaps even offer an alternative to some persons involved in drug traffic.

All of this would, in addition, sharply increase domestic demand for imports of goods and services from the United States, which would, of course, increase employment here.

Mexico's booming in-bound assembly industry, which is already evolving into new forms, could provide a ready-made base for companies to produce not only for the United States and Mexican markets, but for export to third counties, as well.

In short, I believe an FTA with Mexico could be the catalyst that brings to critical mass all of Mexico's courageous policy departures of the last 2-3 years, and all of the tremendous potential for mutual benefit that would flow from expanded United States Mexico—in expanded United States-Mexico cooperation.

It could produce a classic upward economic spiral that would benefit both countries.

Perhaps the most far-reaching effect of an early resurgence in Mexico's economy would be to confirm to the Mexican populace the wisdom of having shifted to a market-centered economic system with a closer relationship with the United States. This could open an era in which both countries would be able to take full advantage of the deeply complementary nature of our economies.

Mexico would, of course, still be an independent sovereign nation with its own separate and often differing views. But, the major extent to which our national interests converge would no longer be as easily obscured as in the past. Levels and types of cooperation now foreclosed due to the concerns for sovereignty might then become possible.

Conversely, Mr. Chairman, should the Mexican economy not respond to President Salinas' program of strong free market medicine quickly enough to convince the electorate of its essential correctness, the staying powers of those changes could be thrown into doubt and the recovery could be short-circuited.

The first major test in this regard will be Mexico's mid-year elections in 1991. Should this happen, the cost to the United States would be very high.

In sum, Mr. Chairman, I believe it is critically important to the United States that this very large and populous country to our south should be economically healthy as well as stable and cooperative in areas of interest to us. I think it is vitally important that the Congress promptly grant negotiating authority for the FTA negotiation when it is asked to do so.

[The prepared statement follows:]

STATEMENT OF JOHN J. ST. JOHN
ST. JOHN - VILLARREAL ASSOCIATES*

Mr. Chairman:

My name is John J. St. John; I am President of St. John - Villarreal Associates, an international business services firm that has a particular focus on Mexico. Until September of last year, I was Director of the State Department's office of Mexican Affairs. As the senior U.S. Government official in Washington working full time on the United States interests with regard to Mexico, I coordinated the development and implementation of U.S. policy towards that country during the period of sweeping economic change that characterized the final year and a half of the de la Madrid Administration, and most of Carlos Salinas de Gortari's first year in office.

Although a significant fraction of my 28-year Foreign Service career dealt with Mexico, I should point out -- in light of the fact that some of my comments compare the importance of our national interests vis-a-vis Mexico with those we have in other countries -- that more than half of my overseas experience was in Western Europe, and that the great majority of my State Department assignments were focused on global concerns of the United States related to trade, monetary affairs, and foreign investment.

I am appearing before you today in my personal capacity.

Mexico's Importance to the United States

Mr. Chairman, the extensive responsibilities the United States has taken on around the world since World War II, together with the geopolitical realities that have prevailed during most of that time, have accustomed all of us to focusing our international vision out beyond the seas, rather than closer to home. The main focus has traditionally been upon Europe, but has expanded increasingly in recent years to include what has come to be known as the "Asian Rim." It's easy to see why. We have life/death, war/peace concerns in both of those directions that, thankfully, seldom surface in our own hemisphere. And for what is still a large (albeit fast declining) majority of Americans, Europe is our ancestral home.

The countries to our south were seen -- correctly, for the most part -- as either too small or too undeveloped to require much more than routine attention. Moreover, they simply were not major players in the global power structure. Although Mexico never really fit this pattern comfortably, it did appear small relative to the United States, and rather distant (our southwest border still seems remote from Washington, as any resident of that region will testify). In addition, Mexico's impressive economic development during the sixties and seventies was perhaps less widely noted than its rapid population growth and the persistently widespread poverty and un- or under-employment at the lower socio-economic levels. Perhaps most important, successive Mexican Governments consciously chose to follow a foreign policy line that emphasized Mexico's separateness, and deflected any overtures that might have breached the correct, occasionally friendly, but essentially distant relationship they sought with the United States.

Perhaps this is why the realization that the Mexico of today is an important world actor, by virtually any criterion, has come as something of a surprise to many people. And because history and geography have combined to make us contiguous with this major actor along a two thousand mile border, there is no country in the world today -- none -- that is more important to the national well-being of the United States.

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* Until September 1989, Mr. St. John was Director of the State Department's Office of Mexican Affairs.

Consider:

- o Mexico, with some 85 million citizens, is the eleventh most populous country on the face of the globe. It may reach 100 million before the end of this decade.

- o Mexico is our third most important export market, after Canada and Japan; more important in that major sense than any European country.

- o Its persistent economic problems notwithstanding, Mexico is resource-rich; it is one of our most important suppliers of oil, and our second most important supplier of strategic raw materials (after South Africa.)

- o Mexico is the United States' largest source of immigration, both legal and otherwise. Some ten million American citizens and legal residents of Mexican extraction play an increasing and positive role in U.S. society.

- o Even without free trade talks, a high degree of economic and cultural integration has been achieved along our common border, particularly in the ten city-pairs from Brownsville/Matamoros in the east, to San Diego/Tijuana in the west. The 15 to 35 million Americans who live in the border area, depending upon how broadly one defines that region, are highly dependent upon interaction with Mexico for their economic well-being (and vice-versa).

- o For over sixty years, Mexico has been a stable, friendly and non-militarized neighbor, posing no national security or military threat to the United States. Our ability to keep our two-thousand mile border non-militarized has saved us countless tax dollars over the years, and given us the necessary flexibility to undertake many of our global commitments.

Mexico's Metamorphosis

Mr. Chairman, Mexico's previous president, Miguel de la Madrid, initiated -- and his successor has dramatically intensified -- changes of the most sweeping and fundamental sort. Other witnesses will undoubtedly give you the technical specifics; I want to try to convey some sense of their political magnitude.

All peoples are shaped by history, but Mexicans seem more acutely aware of theirs than most, and more consciously to *feel* its impact. And although Mexican history is arguably even richer in its internal aspects than in its foreign involvements, incidents of intervention by foreign powers constitute a recurring theme of particular importance. This refers not only to military interventions, but also to the foreign control of national resources which led to the bloody revolution that tore Mexico apart in the early years of this century. From this history, certain rigid principles of Mexican governance have emerged (such as non-intervention, and the primacy of national sovereignty) that Mexican Presidents are powerless to disregard, and can reinterpret only at considerable political risk.

It is the particular genius of the current generation of Mexican leaders that they appear to have found a way to preserve the essence of these principles while sweeping away -- in an amazingly short time -- most of the demonstrably damaging statist and protectionist economic policies that had grown up around them over the years. But more than just the policies; the philosophies behind them have undergone fundamental change as well. For example:

o It is no longer part of the official belief system that business interests and the public interest are necessarily in conflict; that private enterprise is necessarily exploitative; or that government leadership of the economy is the best way (or even an adequate way) to protect the public interest. To the contrary, Salinas has explicitly stated that his Government looks to the private sector as the engine of growth.

o Nor is it any longer assumed that the Mexican side (whether government or private sector) will necessarily come out on the short end of any cooperative arrangement with the United States. This generation of Mexican leaders correctly believes itself entirely competent to defend Mexico's interests at the negotiating table. Moreover, there now appears to be widespread recognition that foreign direct investment (at much greater than the current levels) is necessary if Mexico is to achieve rates of economic growth that it needs and is otherwise capable of.

o Old taboos and "untouchables" are crumbling, from re-establishment of relationships with the Church and the Vatican, to privatization of Mexicana Airlines and Telefonos de Mexico (and perhaps even certain parts of PEMEX), to the unprecedented use of English by President Salinas in an interview broadcast this week on a U.S. television network.

And the changes are not limited to the economy and external affairs; Salinas has publicly recognized that the political institutions and practices that ended post-revolutionary chaos and produced sixty years of stability are no longer adequate to the needs of a modern Mexico. Whatever the political shape of the Mexico of tomorrow, it seems clear that it will be different, more open, and more pluralistic.

Perhaps most important of all is the success the Salinas Administration has had, in its barely eighteen months in office, in generating the elements of a national consensus for his program. Opposition voices will undoubtedly become audible once again as Mexico approaches its mid-term congressional elections in 1991, but their relative quiescence at the moment undoubtedly reflects uncertainty as to how to attack a program that has been so unexpectedly popular.

This popularity notwithstanding, the Salinas program will not really be out of the woods until the economy has definitively recovered. Nevertheless, the extent of its acceptance to date indicates that important Rubicons have already been crossed; whatever happens, it will no longer be possible for Mexico to return to the practices of the past, either on the economic side or on the political.

Implications for the United States

Mr. Chairman, this is a moment of opportunity for the United States, as well as for Mexico, and it is very important that we be clear about what is at stake. Trade (or, to be exact, whether and when to enter into negotiation with Mexico aimed at a free trade agreement) is the pivotal question around which everything else currently revolves, but our trade interests -- important as they are -- are only part of the picture.

The main issue is whether the United States is going to grasp an historic, and perhaps fleeting, opportunity to materially advance a whole range of major U.S. interests for the foreseeable future.

Free trade between the United States and Mexico would, in the first instance, significantly increase economic well-being in both countries. Moreover, our negotiators will ensure that the benefits of an agreement are equitably balanced. Nevertheless, the positive impact upon Mexico's GNP growth and employment could be particularly visible -- even dramatic -- in part because of the lower base from which it starts, but more importantly because of the positive impact it is likely to have upon productive investment in Mexico. This is a major bonus, not only for Mexico but for us, because a rapid economic resurgence in Mexico arising out of an FTA with the United States would open the door to a broad range of favorable second-stage effects.

Mr. Chairman, I will leave to other witnesses the task of enlarging upon the direct, purely trade-related benefits of a U.S.-Mexico FTA; what I want to do in my remaining time with you is examine briefly the view just beyond that second-stage horizon.

The most far-reaching secondary effect of an early economic resurgence in Mexico would be to confirm for the Mexican populace the wisdom of having shifted to a market-centered economic system involving a closer and more cooperative relationship with the United States. This could open an era in which both countries would be able to take full advantage of the deeply complementary nature of our economies. Mexico would still be an independent, sovereign nation with its own separate and often differing views, but the major extent to which our national interests converge could no longer be as easily obscured by policies that artificially emphasize and heighten our differences. Levels and types of cooperation now foreclosed due to concerns for sovereignty might become possible.

The conclusion of an FTA between the U.S, and Mexico would be an enormous confidence-building measure. Foreign investment capital, which has thus far been very hesitant about Mexico despite the extensive recent liberalization of pertinent regulations, would almost certainly flood in to create the expanded productive capacity needed to take advantage of Mexico's new access to the U.S. market. Much of this would be returned Mexican flight capital. Employment should soar. Although this undoubtedly would not, early on, be anywhere near sufficient to soak up Mexico's huge excess labor pool, it would make a substantial dent, and would probably have some upward impact upon wage levels. The employment creation would relieve some of the pressures that lead to illegal immigration and perhaps offer an alternative to some persons involved in the drug traffic as well.

All of this would, in addition, increase effective Mexican demand for imports of both consumer goods and capital equipment from the United States, which would tend to increase employment here. Moreover, Mexico's booming maquila (in-bond assembly) industry, which is already evolving into new forms, could provide a ready-made base for binational companies to produce not only for the U.S. and Mexican markets, but for export to third countries as well. In short, an FTA could be the catalyst that brings to critical mass all of Mexico's courageous policy departures of the last two or three years, plus all the innate creative potential in expanded U.S.-Mexico cooperation. It could produce a classic upward economic spiral that would benefit both countries.

Conversely, should the Mexican economy not respond to the Salinas program's strong free-market medicine quickly enough to convince the electorate of its essential correctness, the staying power of the current changes could be thrown into doubt, and the recovery itself short-circuited. (The first major test in this regard will be Mexico's mid-term elections in 1991.) Should this happen, the cost to the United States would be very high indeed. And should any failure in that recovery be due to (or be seen as resulting from) our own inability to seize the moment and move quickly into an FTA, it would be a very long time before another such opportunity would come along.

Legislative and Policy Conclusions

In sum, Mr. Chairman, it is critically important to the United States that the large and populous country on our southern border be economically healthy, as well as stable and cooperative in areas of interest to us. The fundamental and sweeping policy departures carried out by the current Mexican Administration reflect sound, market-centered economic thinking. Given time and a modicum of good fortune, these may be sufficient to return Mexico to sustained economic growth. We have it in our power, however, to give this process a "kick-start" by negotiating a U.S.-Mexico Free Trade Agreement with all reasonable speed. It is very much in our own interest that we do so. It will be vitally important that the Congress promptly grant negotiating authority when it is requested.

Second, vigorous efforts are now under way along the border to put into place the additional infrastructure needed to handle expanded levels of U.S.-Mexico trade. Two new international bridges are under construction, one near El Paso - Cd. Juarez, and the other between Laredo, Texas and Colombia, in the Mexican state of Nuevo Leon. Approval is currently being sought for a number of additional new crossings, including three in the Lower Rio Grande Valley (one of which, serving the Port of Brownsville, will be primarily commercial.) Further west, a new project with exciting prospects for regional economic development in both countries involves building a new San Diego - Tijuana International Airport astride the border. All these projects deserve congressional encouragement, Mr. Chairman, and -- where appropriate -- support in the form of appropriations to ensure the timely provision of federal inspection facilities and staff.

Finally, Mr. Chairman, our relationship with Mexico is one that will only get more important with every passing year. It is essential that we as a people learn more about Mexico -- their values, their culture, their goals -- and they about us. During the years I managed this bilateral relationship, I was constantly amazed at how many problems, some of them quite serious, had their roots in nothing more substantial than the inability of one side to understand what was driving the other. Both sides need to learn much more about how to work cooperatively and effectively together.

I hope you will support programs aimed at achieving this. And I hope you will urge your colleagues to take advantage of existing programs aimed specifically at the Congress -- the annual U.S.-Mexico Interparliamentary meetings, familiarization trips such as that organized last year by Representatives Jim Kolbe and Bob Pease, and the Congressional Study Group on Mexico organized by the Center for Strategic and International Studies (C.S.I.S.) and co-chaired by Senators Bentsen and Wilson and Representatives Kolbe and Coleman. Programs like these provide excellent opportunities to get a more accurate sense of Mexico, as well as to meet your Mexican counterparts and learn what makes them tick. These programs pay dividends, and are worthy of both your support and your active participation.

Thank you.

Chairman GIBBONS. Thank you.

Let's assume for purposes of this discussion that you convinced Congress we should have a free-trade agreement with Mexico. I think about every witness we have had has alluded to the fact that there is going to be some dislocation here. Some have said we ought to find some way of handling that problem.

I think it was suggested that maybe a phase-in attrition and depreciation of assets could take place if we did it in an effective manner. There probably would be some people that would be affected anyway.

Have any of you in your broad experience ever seen a good trade adjustment assistance program or a program that takes care of these adjustment problems without a lot of human suffering put in place? Could you enlighten this committee as to where we could find such an example and perhaps do something about it.

Dr. Weintraub.

Mr. WEINTRAUB. I don't want to be too glib on this subject.

Chairman GIBBONS. I realize none of you came here qualifying as experts in this field of adjustment assistance. I was hoping to sneak up on you broadside and find out if you have had experience in any of these programs.

Mr. WEINTRAUB. I don't consider myself an expert on this subject.

Many years ago I once looked at the Swedish program which involves salary supplements for people who were losing jobs and had to be retrained into new jobs. I heard mixed reviews of it, but I think it is worth looking into.

Chairman GIBBONS. Salary supplements?

Mr. WEINTRAUB. Salary supplements for people who had to be retrained, moving from higher wage jobs into lower wage jobs and helping out in this particular area. Retraining, we know about. We really don't spend that much money for retraining and a good many other countries do. Several countries have much more elaborate schemes of assistance to affected communities.

Chairman GIBBONS. Tell me where you think they have good retraining programs. Can you name any countries that have good retraining programs? Maybe you can answer that one.

Mr. WEINTRAUB. I think they are mainly the countries of Western Europe. I would have to look it up.

Let me make one final suggestion.

Chairman GIBBONS. All right.

Mr. WEINTRAUB. I would suggest that you at one of your hearings be precise on this question.

Chairman GIBBONS. I think it is a necessity, at least a human necessity as well as perhaps a political necessity in finding some solution to the problem, so I am willing to do it.

Mr. WEINTRAUB. What I am saying is, get better experts than I think I am.

Chairman GIBBONS. All right. Fine.

Any of the rest of you have any suggestions? Mr. Dornbusch.

Mr. DORNBUSCH. There are three aspects. The first is a phase-in that avoids industries that precipitously are sacrificed.

The second is the retraining. That if there are specific ways within which, in a short time, a worker in an industry could be retrained for another job, if that could be identified, that is well worth the money.

The third, if regional mobility is an issue that the trade agreement in fact has an impact that is particularly strong in an area and, therefore, makes it reasonable for people to move, anything that impedes mobility on the tax side, be it losses for selling houses or the like, be strongly subsidized. If that is not done, one creates a permanent priority problem. Those are the three areas that come up.

Germany, I believe, has an effective system that deals with each of those three and had to bring it into work because the northern part of Germany was shipbuilding and essentially economically devastated. Those people now are working in the south in a boom area. In all three respects, phase-in, retraining and mobility subsidies, that program has worked.

Chairman GIBBONS. Would the rest of you like to add something to this?

Thank you very much.

Mr. Crane.

Mr. CRANE. I don't have any questions. I just want to express appreciation to all the gentlemen who testified.

Thank you.

Chairman GIBBONS. Mr. Richardson.

Mr. RICHARDSON. Mr. Chairman, I, too, appreciate all the witnesses for their testimony. I, in particular, want to commend Ambassador Asencio and the work he has done with the Immigration Commission.

As you know, Mr. Chairman, when we passed the immigration bill, we charted Mr. Asencio and a very valuable bipartisan group of Americans to assess how we can improve economic ties to Mexico and deal with the international migration and cooperative economic development. I think they have done a great job.

I look forward to their formal issuing of their report.

To Dr. Weintraub, too, I want him to know that when we worked with the chairman's staff and the chairman in preparing this hearing, Dr. Weintraub, your name came up from every side: Mexican, Hispanic, American. I think that is a tribute to your efforts.

We had a little trouble finding you. We thought you were in California or Texas, and I see that you are here.

Let me just ask a couple of questions. Perhaps the most valuable might be from you, Mr. St. John. I notice you are out of the State Department now, so don't give me a State Department answer.

The question is, how serious will President Salinas, how serious will his problems be in Mexico as we pursue this free-trade agreement? Is Salinas in any danger in Mexico, suffering any damage politically by pursuing this effort, or can he weather the storm?

Mr. ST. JOHN. That is a question hard to answer clearly. The easiest and quickest answer is the latter. He can weather the storm.

To try to put more meat on the bones of that answer, though, he came into office with a very, extremely weak mandate, probably the weakest mandate of any modern Mexican President. That mandate has grown enormously in the 1½ years he has been in office because his strength, the approval, the public approval of his activities and his program have been such that I would now have to call him as strong as any recent Mexican President and perhaps stronger than most.

That said, his program is a radical break from the past. It goes against what has been the political conventional wisdom in Mexico for years, and much of it is technical in nature. There are a lot of people that don't really understand why it is good, but they are coming more and more to accept that it is good.

The first test, as I mentioned earlier, is going to be in the 1991 midterm election. I think at about that time if the average Mexican, if there is such a thing, feels in his pocketbook that things have gotten better or feels in his gut that things are very strongly on the way to getting better, then Salinas will prevail and these philosophies will prevail into future administrations.

Should that not be the case, well, then it is an open ball game.

Mr. RICHARDSON. Mr. McKinney, just a question. Your binational commission is your suggestion that it be formed after the free-trade agreement or now as we negotiate it?

Mr. McKINNEY. I think it would be beneficial to have it formed now, to be looking at these issues as the agreement is formulated.

Mr. RICHARDSON. Ambassador Asencio, can you give us brief highlights of your recommendation and how we can improve border economic development ties?

Mr. ASENCIO. I think some form of binational commission is clearly needed. I am concerned that the traditional approach is a bunch of people sitting in a room talking without access to resources, without jurisdiction, so to speak. It would seem to me that such a commission will only be important if it is given importance and if it is given resources.

Therefore, it would be advisable to give it a specific economic development function and a specific amount of resources to do this. I would think that clearly some sort of regional development bank would be an appropriate thing. It would seem also important to give it some sort of jurisdiction over the social and environmental issues that are very important along the border.

But as the border people tell us, everybody has looked at the border situation, and if anything, have not really contributed in a positive way. They don't need yet another group of strangers discussing their problems. What they need is some way, some instrument to bring resources to bear.

Mr. RICHARDSON. Mr. Dornbusch, finally, you talked about the future in your statement. I appreciated that. You talked about the North American market by the year 2000. It is no secret that some other Latin American countries quietly have expressed a little, I would say, private resentment that we are moving ahead with Mexico and we have not dealt with them.

Look at this issue 7 years down the line. Assume we have passed here in the Congress a Sam Gibbons bill, United States-Mexico free-trade agreement. What are we going to do about our fellow Latins? Do we bring them in on a bilateral basis? Would you like to see a regional accord, or do we do it in one fell swoop? How would you procedurally look at the formation of such a market?

Mr. DORNBUSCH. I would be a bit hesitant to have free trade with many of the South American republics today. Some are politically extremely unstable. Virtually all of them have economic regimes that are totally unacceptable in every aspect.

What stands out in Mexico is that they are really ready and that for us the prospects are clear because exports to Mexico are booming. Every Mexican, just as in Eastern Europe, wants those goods that they already know. It is tangible. South America is not in that situation today.

Ultimately, I would think in 20, 30 years that countries like Brazil offer the same opportunities as Mexico. It is very important to demonstrate the Mexican case, to show to them how to run the economies to qualify for that kind of treatment. And if we do it with Mexico, then of course policymakers there have a good reason to shape up the economies because they, too, want privileged trade relations, more access to financing that comes with it and prosperity that comes very, very rapidly.

Let me mention Spain. Western Europe brought Spain into the Common Market essentially to make it impossible for colonels and generals to run the country, for political instability to be there. Spain has benefited very, very rapidly. Within 6 years, you can see the change.

That will happen with Mexico. That will influence in Latin American economic policies. That may advance the timetable.

I think we should do it piece by piece because the differences are so very large. Of course, Brazil is the most obvious candidate because the market is huge, and as such, extremely interesting. The current Brazilian policies are so extravagant that I would wait a moment before it cools off.

Mr. St. John. I would like to pick up on the question of a border commission, as raised by Representative Richardson and my panel of colleagues.

In point of fact, we have something in existence that is almost like that. In virtually every bilateral issue that exists along the border—water environment, housing, health, migration, et cetera—there are binational bodies of our two governments that are at work, some of them very effectively, some of them a little bit less so. What is missing in most of these is a mechanism for coordination.

One body that immediately springs to mind that is well coordinated is the one that has to do with bridges and border crossings, which is State Department coordinated. I don't think this comment will make me very popular at my old agency. But were the State Department ordered to coordinate these other groups as well, of which the State Department is a member of most, and if they were given the resources to perhaps double the size of the Office of Mexican Affairs and its newly-created border affairs unit and make them something a bit special—that is, different from the usual run of country offices—in explicit recognition of this coordinating responsibility for what amounts to a border commission, then I think we might see a much better coordinated situation and something that really acts like the type of border commission that everyone was referring to.

Chairman Gibbons. That is very interesting testimony. We want to do anything we can to make it work, all of this work better.

Talking about free-trade zones and free-trade blocs and all of that, I want to make it clear again, as I have said many times, that I would like to see free-trade zones with other countries, but I am not going to go out and solicit them and try to bring them in.

If people want to trade with us such as we do with Canada or Israel or hopefully with Mexico, if they will let us know they are interested in talking about it, if they will make the kind of political reforms and economic reforms that are necessary, we would be glad to talk with them. But we are not seeking economic aggression against any of our neighbors, north, south, east, or west. We just want to work with them cooperatively. No threats, no promises, just a good working relationship together. That is my objective in dealing with these different countries and different cultures.

You have given some good suggestions here today. We will try to implement them. Thank you very much.

Our next panel is Mr. Valdez and Mr. Marshall, Mr. Gallardo and Mr. Michie.

I say to you gentlemen as you are taking your seats, I know you have been very patient in waiting this long. As soon as we get everyone seated, we will start off with Mr. Valdez.

Mr. Valdez, why don't you proceed.

STATEMENT OF HON. ABELARDO L. VALDEZ, PARTNER, LAXALT, WASHINGTON, PERITO & DUBUC, WASHINGTON, D.C.

Mr. Valdez. Thank you for the opportunity to appear before you today to discuss this very important issue. I commend you for holding this hearing in such a timely and comprehensive manner.

I also wish to commend Congressman Richardson for his very long and persistent battle to focus the attention of the Congress and the administration on the potential benefits of United States-Mexico free trade.

Many of today's witnesses have already told you that the United States must begin to lay the groundwork for a North American common market if it wishes to remain a competitive player in the next century's global economy.

You have also heard how President Salinas' revolutionary changes in Mexico's foreign trade policy have already led to dramatic increases in our exports to Mexico.

By now you have heard many of the arguments for and against free trade with Mexico. I will not cover this ground again, but I wish to state my clear and unequivocal support for a United States-Mexico free-trade agreement.

In my brief remarks summarizing my written statement, I prefer to concentrate on a critical aspect of a potential free-trade agreement—the need to bridge the tremendous gap between Mexican and American economic and industrial development.

Mexico is not Canada, and a free-trade agreement must recognize this fact. In no other place in the world do two countries with such disparate levels of economic development share a 2,000-mile border. Any free-trade agreement with Mexico must reflect this unique relationship, if it is going to work, by incorporating innovative incentives appropriate for Mexican development and the promotion of U.S. trade interests.

We, therefore, must go beyond traditional models and forge a new type of free-trade agreement, one that recognizes the need for a new concept of coproduction in the transition toward the goal of free trade, an agreement that reflects an understanding that the only good deal for the United States is a fair deal for both countries.

Mr. Chairman, for several years, I have been collaborating with Congressman Bill Richardson in developing a coproduction concept that would combine the comparative advantages of Mexico and the United States and stimulate and accelerate free trade between the United States and Mexico.

This concept would go far beyond the present maquiladora system by granting free trade and other incentives to those coproduction ventures that utilize labor and capital from both countries. These coproduction ventures would have access to both countries' markets.

Congressman Richardson has strongly championed the establishment of a free-trade and coproduction zone between the United States and Mexico, and has introduced several bills toward this end. His latest bill, H.R. 1360, would make the development of coproduction ventures a centerpiece for free-trade negotiations between the United States and Mexico.

In order to qualify as a coproduction venture, under H.R. 1360, firms would have to utilize American and Mexican capital, resources and labor. During the transitional period towards free trade, those sectors which could best benefit from a coproduction venture would be granted free-trade incentives and reciprocal tax reductions.

Such ventures would satisfy Mexico's need for economic development and protect United States labor markets. In other sectors, we would follow the traditional method of implementing free trade.

Coproduction ventures are an opportunity for the United States and Mexico. They provide the first step toward a complete free-trade agreement. A free-trade agreement would benefit both countries by reducing illegal immigration, increasing American and Mexican competitiveness in world trade, and developing mutual cooperation to increase access to third-country markets.

First, illegal immigration would be reduced by creating more job opportunities for Mexican workers in Mexico without a corresponding loss of employment for U.S. workers.

Second, coproduction ventures would help to develop the impoverished areas along our side of the border and create additional employment opportunities in both countries.

Third, these ventures would help industry make full use of the comparative advantages of American and Mexican labor, raw materials, marketing expertise, and technology.

In short, coproduction ventures would assure a win/win situation for industry and labor from both sides of the border, reduce the risk of economic dislocation, and combine the full range of comparative advantages which Mexico and the United States have to offer.

In the 1890's America's leaders believed that they were witnessing the close of the American frontier. In their thirst for new markets they developed a national orientation that enabled this country to lead the world throughout this century.

One hundred years later the need to find new markets and new trade opportunities again confronts us. President Salinas' bold and constructive actions arrive at an historic moment—a moment when the world is transforming—and when it is constructing a new economic order.

We can either seize the opportunity he presents, and start to lead our hemisphere into the next millennium, or we can pass it up in the name of atavistic notions of what comprises free trade. To aspire to the creation of an American hemispheric common market is a noble goal for the Americas to pursue as we near the 500th anniversary of the discovery of the New World.

By incorporating innovative incentives appropriate for Mexican development and U.S. trade interests, a Mexican-American free-trade agreement can provide a model and example of how best to resolve the issues of North-South relations that will dominate the next century.

By capitalizing on the opportunity for coproduction, we can create a free-trade agreement that is a good deal and a fair deal for both the United States and Mexico. Let us not pass up this historic opportunity to make the United States and Mexico not only good neighbors, but also successful economic partners.

Thank you very much.

[The statement of Mr. Valdez follows:]

STATEMENT OF HONORABLE ABELARDO L. VALDEZ
WASHINGTON, D.C.

MR. CHAIRMAN AND DISTINGUISHED COMMITTEE MEMBERS:

Few generations have the opportunity to witness and participate in a fundamental change in world organization and order. We are such a generation. With the lifting of the Iron Curtain, the approaching integration of Europe in 1992, and the emergence of Japan and other Pacific Rim Nations as economic powers, the world is reorienting itself. No longer will nations be divided by political and military spheres of power. They will instead be organized into economic trading blocs. The U.S.'s military might spurred commentators to label this the American Century. To remain a world power through the 21st Century, however, requires a new type of might. It requires us to increase our competitiveness and to expand our role in the world marketplace. Otherwise the emerging new world order will leave the U.S. economy behind.

THE NEED FOR A NORTH AMERICAN COMMON MARKET

The best way for the U.S. to remain competitive is to strengthen its trading position in its own backyard, by laying the groundwork for the formation of an American common market, starting with the North American Continent and eventually stretching from the Artic Circle to Cape Horn. An American common market would enable its members to capitalize on economies of scale and to allocate resources more efficiently in order to increase trade amongst the market's members and to enhance their competitiveness with other trading blocs. We took an historic first step toward the goal of a North American common market by concluding a Free Trade Agreement with Canada. In the not too distant future, the United States, Mexico and Canada could provide the leadership to create an American hemispheric common market.

THE TIME IS RIPE TO CONCLUDE A FREE TRADE AGREEMENT WITH MEXICO.

The time is now ripe to take the second step towards this goal by concluding a Free Trade Agreement with Mexico. This agreement would set the stage for an eventual American common market. Mexico is the United States' third largest trading partner while the U.S. is Mexico's largest trading partner. Mexico offers an important market of over 80 million people, a rich supply of natural and human resources, and a potential partner in expanding trade opportunities throughout Latin America and the rest of the world.

Moreover, for the first time this century, Mexico has a President whose vision of Mexican-American trade relations comports with our own. Earlier this week President Salinas demonstrated his commitment to free trade by joining President Bush in stating that "free trade between Mexico and the U.S. can be a powerful engine for economic development, creating new jobs and opening new markets." Since taking office, President Salinas has demonstrated his country's commitment to greater integration into the world economy through revolutionary changes in Mexico's foreign trade policy. In 1985, Mexico joined the General Agreement on Tariffs and Trade (GATT). Since then it has reduced tariffs, deregulated large sectors of its economy, privatized many enterprises, and loosened its restrictions on foreign investment. Furthermore, Mexico has implemented severe austerity measures that have enabled it to reduce its inflation rate from a 1987 high of almost 160 percent to a rate of about 20 percent last year.

Last summer, Mexico became the first country to reschedule its foreign debt through the Bush Administration's Brady Plan. Additionally, during the past few years Mexico has concluded several bilateral trade agreements with the United States. The two countries have established a dispute resolution mechanism; agreed to regulate steel, alcohol, and textile imports and exports; initiated Trade and Investment Facilitation Talks; and set up a Joint Committee for Investment and Trade. These and other measures have led to a dramatic increase in U.S. exports to Mexico, from $14.6 billion in 1987 to $23.5 billion in 1989.

Mexico's recent actions demonstrate a commitment to liberal foreign trade policies and integration into the global economic community. They set the stage for the conclusion of a free trade agreement with the United States. I wholeheartedly support a free trade agreement with Mexico and would be delighted if we could conclude an agreement with Mexico similar to that we have with Canada. However, Mexico is not Canada. It is a developing nation, many of whose industries would be overrun by unfettered competition from American industries, unless we allow for an intelligent transition to free trade. It is also a nation with a tremendous amount of underemployed workers, many of whom immigrate to the United States in order to survive. Two statistics well illustrate the gap between our two nations. While the United States' per capita Gross Domestic Product falls just short of $20,000, Mexico's barely rises above $2,000. In addition, the U.S.'s per capita personal income is 7 times that of Mexico.

A FREE TRADE AGREEMENT WITH MEXICO SHOULD INCLUDE TRANSITIONAL INCENTIVES TO ENCOURAGE MEXICAN DEVELOPMENT AND TO PROMOTE U.S. TRADE INTERESTS.

In no other place in the world do two countries with such disparate levels of development share a 2,000 mile border. Any free trade agreement with Mexico must reflect this unique relationship. By incorporating innovative incentives appropriate for Mexican development and the promotion of free trade, a Mexican-American free trade agreement can provide a model and an example of how best to resolve the issues of North-South relations that will dominate the next century.

We must go beyond traditional models and forge a new type of Free Trade Agreement--one that recognizes the need for a new concept of co-production in the transition toward the fulfillment of the ultimate goal of free trade -- an agreement that reflects an understanding that the only good deal for the United States is a fair deal for both countries.

The U.S. has a vital interest in ensuring that a free trade agreement between Mexico and the U.S. works. As I will discuss later, a stable and economically secure Mexico will provide us with a market for our goods as well as a partner in exporting goods throughout the world. Moreover, a healthy Mexican economy will mean that fewer Mexicans will illegally immigrate to this country in search of work.

THE MAQUILADORA EXPERIENCE: ADVANTAGES AND DISADVANTAGES

Mexico's maquiladora experience illustrates the potential successes and pitfalls involved in cooperation between Mexican and American industry. These plants are predominantly U.S.-owned and are located mostly on the Mexican side of the border. They capitalize on U.S. tariff laws which assess import duties only on the value added to products abroad. They have succeeded in lowering the cost of goods to U.S. consumers, employing over 400,000 Mexican workers and providing Mexico's second largest source of exports. However, American owners have failed to re-invest their profits in Mexico, to develop Mexican capital markets or industries, or to train skilled workers. The maquiladoras demonstrate that American and Mexican industry can cooperate to create viable and profitable ventures. However, by failing to capitalize on the full range of comparative advantages of U.S. and Mexican technology, capital, labor, natural resources and international marketing expertise, the maquiladoras fall short of their potential to benefit the U.S. and Mexico.

CO-PRODUCTION VENTURES: AN OPPORTUNITY TO ACCELERATE FREE TRADE

Mr. Chairman, for several years, I have been collaborating with Congressman Bill Richardson in developing a co-production concept that would stimulate and accelerate free trade between the U.S. and Mexico. Over the past five years, Congressman Richardson has strongly championed the establishment of a free trade and co-production zone between the U.S and Mexico and has introduced several bills toward this end. His latest bill, H.R. 1360, introduced on March 9, 1989, would make the development of co-production ventures which have the participation of U.S. and Mexican labor and capital a centerpiece for free trade negotiations between the U.S. and Mexico.

Because of the disparity of economic and industrial development between the U.S. and Mexico, it is unlikely that a free trade agreement like the one we have with Canada will be possible with Mexico. While we should seek to reduce all tariffs to a zero level over a period of time in the traditional way of negotiating free trade zones, I think we could agree almost immediately to free trade incentives for eligible co-production ventures in certain sectors, such as automobiles and electronics, that would assure mutual participation and benefit to both countries. In other sectors, we would follow the traditional model. Thus co-production ventures would help us to accelerate the schedule for free trade and assure a win-win situation for industry and labor from both sides of the border. Co-production ventures will combine the full range of comparative advantages which Mexico and the U.S. have to offer. Through them, Mexican and American industry will produce higher quality goods at lower prices for each country's own markets and for export to third countries' markets.

In order to qualify as a co-production venture, under H.R. 1360, firms would have to utilize American and Mexican capital, resources, and labor together. Free trade and income tax incentives would be granted to U.S.-Mexico joint ventures which are engaged in co-production activities on either side of the border. During the transitional period towards free trade, those industries which could best benefit from a co-production venture would be permitted reciprocal tax and tariff reductions. Raw materials and components used to make co-production goods would be afforded duty free treatment. In addition, the final product manufactured in a co-production venture would be entitled to duty-free status when imported into either Mexico or the U.S., increasing access to markets in both countries. Such ventures would satisfy Mexico's need for economic development and protect United States labor markets. Co-production ventures would thus facilitate and accelerate the conclusion of a free trade agreement with Mexico.

CO-PRODUCTION VENTURES WILL BENEFIT THE UNITED STATES AND MEXICO.

Co-production ventures are an opportunity for the United States and Mexico. They provide the first step toward a complete free trade agreement. A free trade agreement would benefit both countries by reducing illegal immigration, increasing American and Mexican competitiveness in world trade, and developing mutual cooperation to increase access to third countries' markets.

First, illegal immigration would be reduced by creating more job opportunities for Mexican workers in Mexico without a corresponding loss of employment for U.S. workers. Fifty percent of illegal immigration to the U.S. originates in Mexico. Virtually all of these immigrants come to the U.S. in search of work. We can therefore curtail illegal immigration by helping Mexico to improve its economy, develop its industry and create more jobs.

Second, because co-production ventures would be granted reciprocal benefits on both sides of the border, they would help spur economic development in impoverished areas on our side of the border and overall job creation in the United States. Co-production ventures will also create critically needed employment opportunities in Mexico.

Third, these ventures would help American and Mexican industry to become more competitive. The U.S. now suffers from a huge foreign trade deficit. By combining the comparative advantages of American and Mexican labor, raw materials, marketing expertise, and technology, co-production ventures will produce higher quality goods at lower prices. Mexico and the U.S. will therefore combine their talents to compete effectively in export markets. Moreover, lower transportation costs make Mexico a much better location for U.S. industry than other developing areas such as the Far East.

The trade-creating effects of these ventures mean that they will not hurt U.S. labor. American labor has loudly opposed a potential free trade agreement with Mexico due to a belief that free trade would drain jobs from the U.S. Because co-production requirements would promote the most efficient allocation of resources and would mandate use of labor and capital from both sides of the border, they would create, not merely shift jobs from one country to the other. They would ensure that both countries gain a fair and equitable share of the jobs created by U.S.-Mexican trade. Moreover, U.S.-Mexico co-production ventures would have greater access to other Latin American markets through ALADI, the Latin American Trade Integration Association. Such ventures would thus augment American markets and consequently increase American jobs.

CO-PRODUCTION VENTURES WOULD BE GATT PERMISSIBLE.

As we negotiate a bilateral free trade agreement with Mexico, we must remain cognizant of our responsibility to the global trading community and our multilateral trade agreements, particularly the General Agreement on Tariffs and Trade (GATT). My proposal and Congressman Richardson's bill would satisfy GATT's requirements. GATT's overriding policy goal aims at promoting free trade. To this end, GATT prohibits export subsidies or other measures that unduly burden foreign trade. Co-production ventures would be GATT permissible -- first because they would provide production, not export, subsidies that would apply across the board, and second because the sector-by-sector implementation of free trade would be permitted by GATT's allowance of the implementation of a free trade agreement over a reasonable length of time. Additionally, co-production ventures would advance GATT's goal of promoting development of lesser developed nations.

CONCLUSION

In the 1890's America's leaders believed that they were witnessing the close of the American frontier. In their thirst for new markets they developed a national orientation that enabled this country to lead the world throughout this century. One hundred years later the need to find new markets and new trade opportunities again confronts us. President Salinas's bold and constructive actions arrive at an historic moment--a moment when the world is transforming--and when it is constructing a new economic order. We can either seize the opportunity he presents, and start to lead our hemisphere into the next millenium, or we can pass it up in the name of atavistic notions of what comprises free trade. To aspire to the creation of an American hemispheric common market is a noble goal for the Americas to pursue as we near the 500th anniversary of the discovery of the New World.

Co-production ventures do not provide a panacea for all ills plaguing Mexico or the U.S. However, by capitalizing on the opportunity they present we can create a Free Trade Agreement that is a good deal and a fair deal for both the U.S. and Mexico. Let us not pass up this historic opportunity to make the U.S. and Mexico not only good neighbors, but also successful economic partners.

Chairman GIBBONS. Thank you.
Mr. Marshall.

STATEMENT OF ROBERT G. "CHRIS" MARSHALL, PRESIDENT, AMERICAN CHAMBER OF COMMERCE OF MEXICO, AND PRESIDENT, SMURFIT CARTON Y PAPEL DE MEXICO

Mr. MARSHALL. I thank you for the opportunity to appear today on behalf of the American Chamber of Commerce of Mexico.

AmCham Mexico is a completely voluntary, self-supporting chamber, whose main mission is the encouragement of United States-Mexico trade and investment. The chamber has 3,000 corporate members and represents 85 percent of U.S. direct foreign investment in Mexico.

The American Chamber of Mexico supports negotiation of a free-trade and investment agreement between the United States and Mexico. The June 11 joint Presidential statement affirmed that a comprehensive free-trade agreement is the best vehicle to achieve a vigorous partnership for sustained economic growth and opportunity.

The American Chamber, representing the views of U.S. business operations in Mexico, concurs.

I would like to outline a few of the ways that a comprehensive free trade and investment agreement with Mexico would benefit the United States economy.

First, through increased exports American companies will benefit in competition with third-country suppliers. Mexico is the number three export market for the United States, purchasing $25 billion worth of products from the United States in 1989. Assuming a moderate rate of growth for the Mexican economy, imports will increase on an average by about $3 billion per year over the next several years.

Second, through increased jobs, since the increased American export sales to Mexico have and will continue to benefit the American labor force. Using findings of the U.S. International Trade Commission, on average each billion dollars of increased American exports creates around 23,000 jobs. Some 300,000 new jobs were created in the United States as a result of the increase in U.S. exports to Mexico from 1986 to 1989.

Third, through assuring American manufacturers access to quality suppliers. Mexico's modernization drive has resulted in a rapid emergence of high-quality component suppliers to complement U.S. industrial needs.

Fourth, through increased sectoral integration. United States and Mexican comparative advantage combine to make U.S. industry stronger in the face of international competition. This is evident in industries such as automotive and pharmaceuticals. The FTA would enhance this process.

Fifth, through improved cost savings to U.S. manufacturers. Transportation costs for United States companies with operations in Mexico are more economical by comparison to nearly all other off-shore manufacturing areas.

Sixth, through the alleviation of illegal immigration, since employment in Mexico arising from greater trade and foreign investment will help stem such immigration into the United States.

Finally, through foreign policy benefits. Mexico is the most important United States foreign policy relationship for the long term. Economic integration will lead to a more secure relationship.

AmCham Mexico urges the U.S. Government to give priority to an FTA negotiation. The administration and Congress should effect steps to put such negotiations on a fast track approval system. That was used to negotiate and ratify the United States-Canada and United States-Israel FTA's.

As for timing, I would add that the sooner the U.S. corporations know something about the character of the FTA to be negotiated, the sooner they will be able to make informed investment decisions. We are recommending that negotiations commence as soon as practical to shorten their period of uncertainty.

AmCham Mexico recognizes that Mexico and the United States are involved in full fledged, multilateral negotiations. We also recognize it is necessary to define the scope of the FTA negotiations. We would hope that as soon as possible after this preparatory period, negotiations would begin in earnest.

[The statement of Mr. Marshall follows:]

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TESTIMONY ON UNITED STATES-MEXICO ECONOMIC RELATIONS BEFORE THE TRADE SUBCOMMITTEE OF THE HOUSE WAYS AND MEANS COMMITTEE

JUNE 14, 1990

DELIVERED BY ROBERT G. "CHRIS" MARSHALL
PRESIDENT, AMERICAN CHAMBER OF COMMERCE OF MEXICO

Chairman Gibbons and members of the trade subcommittee:

My name is Chris Marshall. I am president of the American Chamber of Commerce of Mexico and president of Smurfit Cartón y Papel the Mexico subsidiary of Jefferson Smurfit. Our company is the largest packaging operation in Mexico.

I thank the trade subcommittee for the opportunity to appear today on behalf of the American Chamber of Commerce of Mexico.

AmCham Mexico is a completely voluntary, completely self-supporting chamber, whose main mission is the encouragement of U.S.-Mexico trade and investment. The chamber has 3,000 corporate members and represents 85 percent of U.S. direct foreign investment in Mexico. Among the corporate members are the U.S. automakers, and companies such as IBM, DuPont, Colgate Palmolive, Proctor and Gamble, 3M, Kodak, and many, many others. These companies are not just members in name. The managing directors of these companies are active on 17 working committees which engage in a variety of business-promotion activities ranging from detailed policy proposals to the Mexican government to community service activities in the areas of environment and education.

The public notice of May 17 regarding this hearing mentioned three areas of focus. My statement will deal with two of these areas: Mexican economic reforms, and "views on prospects and proposals for future U.S.-Mexico economic relations."

Beginning with the question of proposals for future U.S.-Mexico economic relations: The American Chamber of Commerce of Mexico strongly supports the idea of a free trade and investment agreement (FTA) between the United States and Mexico.

The joint presidential statement of June 11 affirmed that a comprehensive free trade agreement is the best vehicle to achieve "a vigorous partnership for sustained economic growth and opportunity." Our chamber, representing the views of U.S. business operations in Mexico, concurs.

Clearly, such an agreement would have to be GATT-consistent under Article XXIV of the General Agreement. The indications from the Mexican government are that it is prepared to negotiated an agreement of such comprehensiveness as to be acceptable under Article XXIV.

Briefly, I would like to outline a few of the ways that a comprehensive free trade and investment agreement with Mexico would benefit the United States economy.

For U.S. manufacturing and service industries, competitiveness will continue to be the primary imperative throughout the decade. Adding to this is the trend toward economic unification between the EEC and Eastern Europe. In facing international business competition, economies of scale, effective use of comparative advantages, market access, and availability of labor and technology must all be maximized. An FTA would contribute to the attainment of these necessary elements for competitiveness. In agriculture, it would increase the competitiveness of U.S. exports to Mexico relative to third countries. Further, a formalized trade partnership between the

United States and Mexico would lend stability to the business environment in Mexico, giving permanence to recent policy reforms.

The following are some of the direct benefits to the United States that could be expected as a result of a free trade pact with Mexico.

1. Increased Exports.

American companies will benefit in competition with third country suppliers. Mexico is the number-three export market for the United States, purchasing $25 billion worth of products from the U.S. in 1989. Imports from the United States now account for nearly 71 percent of Mexico's total imports. Since the country cut drastically its tariffs in December 1987, its imports have increased tremendously. Assuming a moderate rate of growth for the Mexican economy, imports will increase on average by about 12 percent per year over the next several years. This represents a major growth market for the United States economy.

2. Increased Jobs.

These increased export sales to Mexico have and will continue to benefit the American labor force. Using the findings of the U.S. International Trade Commission that, on average, for every $1 billion in exports, 22,800 jobs are created, more than 300,000 jobs were created as a result in the increase in U.S. exports to Mexico from 1986 and 1989.

3. Quality Suppliers.

Mexico's modernization drive is resulting in the rapid emergence of high-quality component suppliers to complement U.S. industrial needs. By encouraging investment and linkages, an FTA would accelerate this development.

4. Cost Savings.

Transportation costs for U.S. companies with operations in Mexico are more economical, as are supply lines, by comparison to nearly all other major offshore manufacturing bases.

5. Alleviation of Immigration.

Any growth in employment in Mexico arising from greater trade and foreign investment will help stem illegal immigration to the United States.

6. Foreign Policy Benefits.

Mexico is the most important U.S. foreign policy relationship for the long term. Economic integration will lead to a more secure relationship.

AmCham Mexico urges the United States government to give priority to an FTA negotiation. The administration and Congress should take appropriate steps to put such negotiations on a fast-track approval system as was used to negotiate and ratify the U.S.-Canadian and U.S.-Israel FTA's.

While recommending that negotiations commence as soon as practical, AmCham Mexico recognizes that Mexico and the United States are involved in full-fledged multilateral negotiations. Also, it is necessary to define the scope of the negotiations. That is why we support the decision by the presidents to direct their top trade negotiators to undertake the consultations and preparatory work needed to initiate such negotiations. We would hope that after this preparatory period, negotiations would begin in early 1991.

AmCham Mexico recognizes that an FTA is not a panacea. The complexity of trade issues, together with the different respective goals of the countries, requires the terms and conditions be comprehensive, certain, flexible and, above all, equitable. Notwithstanding the complexities, the gradual achievement of a free trade pact will give both nations the edge they need to sustain growth in the face of severe international competition.

Turning to the economic reforms, let me take some of the major ones in turn.

Trade Liberalization:

In general, we find the tariff schedule to be acceptable by international standards. It would be preferable if Mexico agreed to bind its tariff rates. Additionally, by the Mexican government's own estimates, nearly 20 percent of all imports are subject to some form of non-tariff barrier.

Foreign Investment Opening:

The Regulation of the Foreign Investment Law, enacted in May 1989, is considered a very positive step in the direction of "open doors" to foreign investment. Many companies are in the study stage regarding new investment in Mexico and interest has definitely increased since issuance of the Regulation. However, U.S. companies are somewhat uncomfortable with the fact that the Regulation does not have the permanence of law.

Industrial Deregulation:

Several sectors have been significantly deregulated, including automotive, insurance, packaging, and truck and air transportation. Additionally, regulations on transfer of technology were revised early this year. These new regulations satisfactorily address nearly all the concerns of foreign investor licensors. The most important of the deregulation measures, in terms of encouraging foreign investment flows in the short term, was the liberalization of the automotive industry.

Privatization:

The government has proved its seriousness about privatizing major companies. The most dramatic sign of President Salinas' resolve was his decision May 2 to reprivatize the banking system. Sales completed so far include Aeroméxico and Mexicana Airlines, Mexicana de Cobre, a large copper mine, and Tereftalatos Mexicanos, a major chemical company. Part of the manufacturing arm of the Basic Commodities Company (Conasupo) was sold recently to Unilever. Foreign investment also participated in the purchase of Mexicana Airlines. The upcoming sale of Telefonos de México is estimated to be the world's fifth largest privatization sale ever, and will include foreign participation, in a minority position. It is believed the government wants to see the telephone company in private hands by this coming fall. Several other major companies, are expected to be sold soon, including two steel giants and some important agriculture concerns. Even the national oil company, Pemex, is opening itself to huge joint ventures with foreign investors.

In addition to the above areas, we are encouraged by government budget discipline, reductions in the rates on corporate income tax and the dividend withholding tax, and by the overall pro-business attitude at the top levels of the various economic ministries.

Areas Still In Need Of Reform

At the top of this list is the law governing the protection of patents and trademarks. The Salinas administration appears on track to introduce a new law in the fall session of the Mexican Congress. We are confident that this new law will meet international standards for protection. Enforcement of the law will bear watching, however.

Financial services is an area much in need of liberalization to foreign investment. The activities of U.S. banks in Mexico are severely limited. Non-banking financial services is an area where liberalization should begin promptly.

In agriculture, reform is being undertaken. But the problem is mammoth. The Mexican government appears to be trying to retain the legal regime of small communal farms, known as ejidos, while opening to foreign investment. Its contemplated solution of, in essence, allowing foreign and domestic agribusinesses to manage land and use farm labor, is creative. Its workability remains to be tested.

And, finally, a new Foreign Investment law will be necessary.

Chairman Gibbons and members of the trade subcommittee: I thank you again on behalf of the American Chamber of Commerce. AmCham Mexico wishes to offer itself as a resource to you as you consider the issue of a United States-Mexico FTA. I believe we can offer this subcommittee a unique perspective as American businessmen in Mexico. At the same time, we also want to learn more about the issues surrounding an FTA and how our chamber can best be of help to the United States Congress.

Thank you.

Chairman **Gibbons**. Thank you.

I think it is best we take a break now. We have to go vote. We will be right back.

[Recess.]

Chairman **Gibbons**. Mr. Gallardo.

STATEMENT OF JUAN GALLARDO, CHAIRMAN, MEXICAN SECTION OF THE U.S.-MEXICO BUSINESS COMMITTEE, CHAIRMAN, MEXICAN BUSINESS COORDINATING COUNCIL FOR INTERNATIONAL TRADE, AND CHAIRMAN, NORTH AMERICAN REGION OF THE MEXICAN BUSINESS COUNCIL FOR INTERNATIONAL AFFAIRS

Mr. **Gallardo**. Thank you, Mr. Chairman.

First of all, I would like to thank you and the members of the committee for allowing us to be present in such an important hearing. It is also, for all of us, extremely gratifying to see the level of awareness that exists in the United States over the changes within my country. That in itself is a very stimulating experience for all of us.

I also would like to mention the fact that within Mexico and within the Mexican private sector, which is the perception I would like to bring to this hearing today, and will attempt to do so, there has been formed a new coalition or organization.

You will see in my statement that we have called it the Mexican Business Coordinating Council for International Trade. It basically responds, in its United States and Canadian chapter, to this event, and the idea was that all the different private sector organizations come together under one umbrella to be able to be properly structured to play the kind of active role under a negotiation that will be required. That has already occurred.

I would like to inform you, Mr. Chairman, of that event.

Also, I would like to, with your permission, not read the whole statement. The statement is in the document. As we have heard so many valuable presentations this morning, I am afraid that I would be repeating many of the——

Chairman **Gibbons**. That is always the problem at this hour of the hearing, but go right ahead.

Mr. **Gallardo**. I would like to concentrate basically on three areas, if I may, and the statement will be on the record.

Chairman **Gibbons**. Certainly. All statements will be in the record.

Mr. **Gallardo**. The first one is the element of what we may call the concept of permanence. I think that in several of the comments in this morning's debate, there has been a level of concern over the permanence of the Mexican transformation. I would like to comment on that, if I may, Mr. Chairman.

Basically, in relationship to the depth and cost of the transformation within Mexico, no longer within the public sector and the politics because that is already on record and has already been commented, but within the private sector itself. I think that it is extremely important to mention this because it is this depth and cost of transformation which establishes the stage for the commitment and effort thereafter. That is why I feel it is so relevant.

Basically there are three areas in which this transformation has occurred within the private sector. The first one is the financial area. From 1982 on, the debt-to-equity ratios of the Mexican companies which were highly leveraged has totally transformed itself to what you may call a very solid financial base. That has occurred through very creative schemes of refinancing, through the tapping of the equity markets, and through repatriation of funds and a combination thereof.

The fact of the matter is that whereby you had almost a 4 to 5 times debt-to-equity ratio in the Mexican private sector just 6 years ago, today you have almost 2 to 1 in the other direction. You have a very solid financial base. I think that sets one of the platforms for what is a good trading partner in every sense in terms of what we are discussing.

The second area that I think is very important is the repositioning itself. I don't think a week has gone by in the last few months where there has not been some form of merge, acquisition, strategic alliance, whatever. The fact of the matter is that that production capability has been greatly streamlined and made much more efficient.

This ties in also with what you may call new investment in new areas within this repositioning. A good example was mentioned this morning during the hearing, that relates to the question of the privatization within Mexico. And I think there is nothing more eloquent than to see the bidding process for the privatization that has occurred, many of them even under joint ventures with United States and other foreign companies. The bids have been there every time in a more aggressive way.

I think that is a very strong statement towards the level of confidence and investment and capability to respond to the challenge and the fact of the matter that within the last 2 or 3 years when this privatization has occurred, there has been one, two or sometimes even more players willing to pick up that capability.

On the other hand, you have the question of the operational transformation. I would like to emphasize that because a lot has been commented in terms of Mexican labor productivity.

There is no doubt that one of the biggest transformations that has occurred through the crisis itself which in a way has acted to a great extent as a catalyst in this process, and through that crisis, has been in the level of communication and commitment between management and labor to get productivity geared to par with worldwide standards. A great deal of this transformation, even though some of it was started before the entrance of Mexico into the GATT, has been very much GATT driven or GATT triggered. As these barriers came down and open competitiveness was required, it was obvious we had to bring up to par our level of stability financially and operationally or we would not be in the game for too long.

So it has been that level of transformation and the operational capability that is very important. There are many examples of this. I certainly wouldn't want to take up too much time of this hearing to say it.

The fact of the matter is that productivity incentives, commitments toward workload and so on, were through very stringent and difficult negotiations. The situation that had built up for years and years in terms of productivity was totally restructured. That is not an exception. It is pretty much the rule as it is occurring now.

Finally, on the question of transformation, there is a very basic transformation in the whole commercial area. In other words, it was already mentioned by Mr. Weintraub this morning that the fact that the nonoil exports in Mexico has become an inverse proportion over a 6- or 7-year period. That is an eloquent figure. Seventy percent of our export earnings come from non-oil-related situations. I think it goes beyond that.

Mexican industry has had to find ways to find new markets and new niches for production capacity and to identify those with a kind of level of permanence and commitments to markets that establish the kind of ability that was required to make that change in the formula that has occurred over the last 4 or 5 years. There are many examples of it, many of them through joint venture agreements in sharing coproduction.

If you take these three areas of transformation into place, in other words, the financial, the operational and the commercial, you would have to wrap them up that under one additional concept that we feel is extremely important to mention and which is the level of joint commitment and credibility that exists between labor, the public sector and the private sector.

The most eloquent element in that has been without any doubt the success that our economic pact for stability and growth has represented and which I won't go into, but I am sure you are all aware of the achievements in terms of reducing inflation, the fiscal deficit, and everything else. It is the perfect example of that kind of joint effort and commitment and resiliency and flexibility that has been required within the country and which has been no easy task.

I think if I give the impression that this has flowed through over the last few years and been an automatic, I would be totally misrepresenting. It has been an extremely costly exercise. It has been an extremely difficult and tense one to insert our economy into the world transformation as it has occurred. And I think that having incurred in those costs and being in a position to do it is probably the best level of assuredness that that process will continue.

I would like to pick up on what Ambassador Hills said, with which I couldn't agree more. That is the fact that going into a free-trade agreement will assist in locking in this transformation and certainty.

The second part of my comment would be related mostly just to the rationale of why it makes sense on both sides. Mr. Schulze this morning mentioned that it should not be a one-way street. I think that we all could not agree more with that concept. This has to be what you may call a solid business proposition for both sides, and it has to make solid business sense for both sides very clearly.

It is obvious that on the Mexican side, the question of investment and not only investment from Mexicans, but investment from abroad, and not only from United States sources, but other countries, will be substantially increased. That has been already mentioned.

In terms of something I think was important to clarify, in one of the presentations it was spoken of as a case-by-case decision from the Mexican authorities. The foreign investment rules have substantially transformed themselves in Mexico through new regulations. And we have in place today a situation which I think is very interesting to comment because it represents a level of commitment from the Government to be speedy and agile on these questions. That is that any request for an investment permission, if required, and it is now minimally required, but where required, if not answered within 45 days by the pertinent authority, is automatically granted. I think that represents a level of response to the speed of events that is required.

On the other hand, it is obvious that also we will be able to pick up on upgrading our whole technological base. It has already been mentioned. I would like to confirm it. It is very clear the commitment on behalf of our Government to establish the kind of intellectual property rights, protection that make us competitive with anywhere in the world. That is already in process. I wouldn't comment further on it. It is clear it is part of the ingredient of what we have discussed.

Finally, in terms of a market, I would like to pick up on what Mr. de la Garza was mentioning this morning. I think there are two elements. One is obviously volume, having a bigger volume. You have obviously more competitive position on both sides.

But the second one, extremely important, the whole question of predictability. Both sides know and can respond and can, therefore, interact in such a way that they establish the kind of complementary situations that have already been commented. But the element of predictability is an extremely important element, I think, on both sides.

From the United States standpoint, I think that what Mr. Asencio was mentioning a little while ago in terms of the unusual propensity of Mexicans to buy U.S. products is certainly, I think, very eloquent. From our purchases abroad, 70 percent come from the United States. From the U.S. purchases abroad, only 7 percent or less come from Mexico. I think that that is a very eloquent figure.

Therefore, obviously under the free-trade agreement, the Mexican market as such for U.S. products is an absolute natural in even ever-increasing mechanisms. The growth in the last few years is very, very significant. We have gone from $9 billion or $10 billion to over $20 billion of purchases from the United States. I think it is only a first example of what this can truly represent over time.

I would like to add on this question of the complementary nature of our two economies in our production alliances which used to be to a great extent driven through the joint venture concept. Now they are more driven basically by the question of installed capacities and competitive costs.

There are many, many examples of this both in the capital goods industry, in the auto parts industry, and in the industrial instrumentation industry, to just mention a few, where basically both elements can clearly identify what they can do best to jointly put together something that can be competitive around the world.

Also, the changes within the whole maquiladora in terms of being further sources within the Mexican markets. Also the question of seasonality, which has been mentioned in agriculture, were good examples of how our economies can be complementary.

I think it is perfectly clear that an FTA has to represent a joint competitiveness and a joint effort for both countries and a joint benefit for both. This is what Mr. Pease and Mr. Richardson were saying earlier in terms of finding facts that can sustain this situation within the private sector both on the United States side and on the Mexican side.

In order to reveal those facts, in the United States-Mexico Business Committee, we have commissioned two economic studies that I think would be of interest. Certainly we would be very anxious to share their results with this committee. One study is going to be done by Peat Marwick and a firm in Mexico which has as a basic purpose to try to identify those sectors and regions of different impact in the process.

The other one is going to be done in CEESP, an organization funded by the Mexican private sector together with Colegio de Mexico, a highly regarded institution, to try to develop an econometrics model that may be used during the negotiation stage and thereafter because it is perfectly clear that thereafter there are going to have to be adjustments in the process on both sides through the agility that has already been mentioned.

To have that kind of an econometrics instrument to be able to anticipate and know and soften any kind of impacts on either side that may be occurring, it will be extremely important.

Finally, just in terms of methodology, I think it has been very clear that we do need these fact finding efforts. The Mexican Senate, as I am sure you are aware, called for a public debate. That debate was extremely intense. It took place in four different cities in the country. It called upon many of the whole spectrum of different thoughts within Mexico, intellectual thoughts. I think it was a very rich participation that occurred during that debate. Certainly out of that has come a consensus and commitment building that can only go and strengthen the kind of negotiation that we are talking about.

Also, Mr. Valdez was mentioning, and I think it is extremely important, this question of the recognition of the different sizes of the economies, both through the asymmetry and through the gradualization of the process. I think that is very important, obviously, to both of us.

That would also allow, by the way, for something to pick up on a committed basis, which is the need that exists without any doubt to build up Mexican infrastructure towards the competitive levels.

The last few years of not having built that infrastructure because of the crisis stage, has represented a lag that now requires that breathing space to pick up in terms of infrastructure, roads, transportation, et cetera.

And finally the system of the different binational commissions that has already been mentioned here, in terms of methodology they become extremely important to be able to correct the process with opportunity.

I would like to end my remarks by saying that I feel we are facing a very unique opportunity. We are, on the Mexican side, extremely aware of what it represents and what we need to be doing.

I think there are no two countries in the world more vital to each other's future prosperity than Mexico and the United States. There are no two countries in the world that have greater opportunity to benefit from each other than we do. Now is the time to negotiate a free-trade agreement between our two countries.

The Mexican business community attaches a high priority to strengthening our nation's tradition of friendship and cooperation. Let us have the vision, foresight, and courage to realize our two futures together as independent, prosperous, equal nations.

Thank you.

[The statement of Mr. Gallardo follows:]

STATEMENT BY MR. JUAN GALLARDO,
CHAIRMAN OF THE MEXICAN SECTION OF THE
U.S.-MEXICO BUSINESS COMMITTEE
AND CHAIRMAN OF THE
MEXICAN BUSINESS COORDINATING COUNCIL FOR INTERNATIONAL TRADE
BEFORE
THE TRADE SUBCOMMITTE OF THE COMMITTE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
JUNE 14, 1990.

Introduction

My name is Juan Gallardo, I am a Mexican national and a businessman with interests in a variety of sectors. Earlier this year I was elected as Chairman of the North American Region of the Mexican Business Council for International Affairs (CEMAI) and Chairman of the Mexican Section of the U.S.-Mexico Business Committee, also, as of the day before yesterday, the C.C.E. -- which is the foremost private sector coordinating body-- has distinguished me by nominating me the Chairman of a new entity whose area of activity focuses exclusively on the Mexican private sector relationship with the U.S. and Canada: The Mexican Business Coordinating Council for International Trade.

On behalf of these organizations of the Mexican business community, I want to thank Chairman Sam Gibbons and the members of the Trade Subcommittee for the opportunity to participate in this very important hearing.

CEMAI is an umbrella organization representative of the Mexican business community on matters related to international affairs. It counts with the organizational sponsorship of the ten largest Mexican business organizations and trade associations. CEMAI also represents the Mexican community in more than 60 bilateral business committees all over the world.

The U.S.-Mexico Business Committee has provided a forum for business and financial leaders from the two countries since 1951. It promotes the expansion of bilateral trade, investment and capital flows; and plays an active role in debates that shape bilateral economic relations.

More recently, in response to the conclusions achieved during the national dialogue recently conducted by the Mexican Senate on Mexico's international trade relations, the private sector has put in place a unified organizational structure under the umbrella of the Mexican Business Coordinating Council for International Trade that encompasses all the sectors of the Mexican economy with regards to the U.S. and Canada. I have been greatly honored with the opportunity to head this recently created private sector structure.

Private sector constituency for a Free Trade Agreement

The Mexican business community has reached the conclusion that it is in the best interest of our two countries to implement a comprehensive Free Trade Agreement that eliminates, over time, virtually all barriers to trade between the United States and Mexico. This conclusion was achieved after several years of careful consideration of all elements involved.

We strongly believe that this agreement represents the best vehicle to advance the standards of living and global competitiveness of both countries.

The Mexican business community wishes to play a constructive and active role in the process of building the agreement. The strengthening of our organization will make our current close ties with the Mexican government more expeditious and will also increase the efficiency of the consultation process.

We in the Mexican community have the strong conviction that the negotiation of a free trade agreement is a win-win alternative for our two countries. In 1989, two-way trade between the U.S. and Mexico was over $52 billion. U.S. investment in Mexico currently totals $15 billion. The opportunity is at hand to increase both of these figures several fold, expanding employment and domestic prosperity in both countries, and equipping the two nations to increase their competitiveness.

Mexico's trade reform and economic opening has translated into a clear increase of U.S. exports to Mexico. The figure has doubled from 1984 to 1989 to a total of $25 billion. Only during 1989, U.S. exports increased by over 20 percent. Of all the countries of the world, Mexico is most likely to use its export earnings to the benefit of the United States by naturally purchasing U.S. products as it is demonstrated by the fact that the United States supplied 68 percent of Mexican imports in 1989.

Imports from Mexico are also more likely to be produced in facilities using U.S. machinery, technology and capital than imports from other sources.

Needless to say that Mexico's economic transformation has inflicted an enormous economic cost to many Mexican corporations. In a matter of a few years --since 1986-- businesses have undergone a shocking and profound transformation to be able to meet the challenges of a more competitive environment.

Advantages of a Free-Trade Agreement

Both countries face economic challenges that must be addressed promptly. Specifically, Mexico must achieve long-term, non-inflationary economic growth, and the United States must become more globally competitive. Mutually reinforcing actions on trade on both sides of the border will build on the recent agreement on Mexico's foreign debt and greatly help the two countries achieve these goals. Progressive elimination of tariffs and import restraints through a comprehensive bilateral free trade agreement offers substantial bilateral economic benefits as further described.

Mexico's rationale for seeking a free trade agreement

As it is clearly described in the International Trade Commission report on the first phase of investigation 332-282, the path that Mexico followed for roughly half a century was similar to that of many other developing countries, particularly in Latin America. Mexico accepted the proposition that infant industries are best nurtured behind protective walls. This policy remained in place until 1985 when Mexico began formulating its new economic strategy, focusing on economic stabilization and internationalization directed to improve the competitiveness of the domestic industry and to fight inflation. As part of this process, Mexico unilaterally implemented substantial trade reforms pursuant to GATT accesion in 1986.

Mexico is thus engaged in a transformation of historical proportions, of which trade policy is a key component. The current administration of President Salinas de Gortari is pursuing policies aimed at opening the economy as rapidly as possible by encouraging foreign investment and promoting non-oil exports, reforming its import policies, reducing the number of state-owned companies through privatization or liquidation, and reducing government spending as proportion of GDP.

Mexico's level of commitment to its new model rests on two strong foundations: the costs already incurred by the Mexicans, and to the competitive challenges posed by the current world transformation.

For Mexico, under this new outward model of development, the next logical step is to seek a comprehensive free trade agreement with the country that is not only its neighbor but also its main trading partner and foreign investor.
In addition to a direct increase in economic activity, a comprehensive trade liberalization will establish an economic climate that will make Mexico more attractive to both Mexican and foreign investors. In particular, by eliminating tariffs and non-tariff barriers to bilateral trade, protecting intellectual property and promoting foreign investment, Mexico will attract new flows of capital and, in turn, new technologies, modern enterprises, and new jobs. Mexican enterprises will improve their access to the U.S. market, to international capital markets, and reduce their costs.

Cases that underline the complementary nature of the two economies

But if Mexico is to gain, the United States is also well positioned to benefit from a closer economic relationship with Mexico. Economic growth in Mexico will create new market opportunities for U.S. companies and expand U.S. employment since the U.S. industry will become more competitive by performing some stages of the productive process in Mexico instead of in other countries of the world.

Trade and investment liberalization will also lead to new manufacturing and supply relationships that will improve the competitiveness of U.S. industries at home and abroad. U.S. firms will benefit from the better cost-effective organization of their North American operations.

As with the entrance of Portugal and Spain into the European Community, both the more developed and the less developed parties stand to benefit from carefully staged implementation of a bilateral trade and investment agreement.

There are strong arguments in the United States favoring mutual improved market access. The following cases are only meant to exemplify the complementary nature of our economic ties since there are many others that will surface as this process becomes clearer:

1. Mexico is one of the United States' most important agricultural trading partners. Mexico currently imports a total of $3 billion in agricultural products annually. Of that amount, over $2.2 billion comes from the U.S. These products include feed grains, oilseeds, edible oils, wheat, edible dry beans, rice, etc.; products in which the United States has a clear competitive advantage due to its own soil and climatic conditions. On the other hand, Mexican natural conditions are well suited to cultivate different agricultural products with high international market value such as citrus, sugar, vegetables, and flowers.

   In the same field of agricultural trade, the consumers of the U.S. could also benefit from the access to Mexican produce even during the winter season when the U.S. production is scarce or nonexistant. On the other hand, and as income improves, Mexican consumers will seek the processed food products available in the U.S.

2. The U.S. automobile and autoparts industries are also well positioned to increase their competitiveness in the global economy by taking advantage of the production sharing schemes and economies of scale available in Mexico.

3. The coproduction performed in the in-bond or "maquiladora" industry is another example of the complementary nature of our economies. They have become the second largest hard currency earner and a very important job generator for Mexico. Likewise, for the U.S. it has often saved jobs by allowing U.S. industries to remain competitive with foreign manufacturers. Despite the fact that maquiladoras are not popular in all parts of the United States, different studies have proven that in the end the overall benefits for both economies are greater than the costs incurred. A study made by Wharton Econometrics for the U.S. Department of Labor some time ago showed that without the maquiladoras the U.S. GNP would be reduced by almost $3 billion.

   From the Mexican point of view, maquiladoras are a priority candidate to become more integrated investments as the process of implementing the free trade agreement evolves and they consolidate as a key sourcing element to help improve the competitiveness on both sides of the border.

   Additionaly, the maquiladora industry demands every year raw materials and other components worth around $8 billion. The implementation of the free trade agreement will provide over time the long term certainty to companies on both sides of the border to jointly supply this market.

4. Another area where both economies complement each other is that of labor. The human problem of migration between our two countries is closely linked to the economic conditions

prevailing in Mexico. The implementation of a free trade agreement provides Mexico with the greatest opportunity available to create the needed jobs in the Mexican territory. We clearly wish to export goods rather than people.

As we all know, the transfomation experienced in Eastern Europe is providing the European Community with the opportunity to tap human resources in very competitive conditions that were previously unavaliable. For the U.S., the free trade agreement with Mexico will clearly provide the opportunity to offset some of these competitive disadvantages.

Additionally, the U.S. also needs to consider whether its own demographic structure can provide the labor availability required for future growth.

5. Another element where the U.S. and Mexican economies complement each other is capital investment. Due to its key geographical position, Mexico has always been called to be a very important recipient of U.S. capital. However, these expectations have not materialized in part because in the past the investment climate has not been the most adequate to win over other competitive countries. There are many anecdotes of companies having to move their manufacturing plants to countries in Southeast Asia or some other region far away in order to remain competitive when they could have just moved next door to Mexico. Now, in anticipation of the Mexico-U.S. free trade agreement, the cases within our bilateral business committee are increasingly focusing on those companies who are seriously considering to bring back their plants to locate in Mexico, and thus, allowing the creation of U.S. employment that always accompanies investment in Mexico.

Recent Bilateral Liberalization

Recent years have seen dramatic and rapid improvements in the agreements and policies governing trade and investment between the United States and Mexico. Until the mid-1980s, there was no agreement of any sort to facilitate trade or investment between the United States and Mexico; the relationship suffered from mutual distrust; and each nation had laws and programs which had the effect of preventing or limiting the growth of economic relationships with the other. Since then, the U.S. and Mexico:

-- signed an agreement regarding subsidies and countervailing duties;

-- signed a bilateral Framework Agreement in 1987, which established principles for their trade and investment relations and encouraged negotiations, consultations and the resolution of disputes;

-- agreed to engage in "trade and investment facilitation talks (TIFT's)", which explored for twelve months the liberalization of key sectors. Petrochemicals, some agricultural products, and standards, testing and certification were the subjects of the first round talks;

-- liberalized U.S. restrictions on steel, textile and apparel imports from Mexico.

In addition, Mexico:

-- joined the General Agreement on Tariffs and Trade ("GATT");

-- abandoned its "import substitution" model, which sought domestic self-sufficiency through import protection and government subsidies, and endorsed the goal of competitiveness in global markets;

-- lowered its tariffs, reducing its maximum rates from 100% to 20%, and eliminated import licencing requirements on most products; and

-- sold to the private sector or liquidated hundreds of state-owned enterprises, deregulated key sectors, especially transportation, and substantially liberalized restrictions on foreign investment.

In response to President Salinas' moves to open trade and encourage private enterprise, and to encourage future liberalization efforts by the Mexican government, the U.S. has taken steps to bolster Mexico's economy. Specifically, the U.S. expanded Mexico's benefits under the Generalized System of Preferences.

The numerous events described above have brought prompt and gratifying benefits. A high level of confidence now exists in both countries in the increased prosperity and employment that results from combining their resources and markets. The conditions are now ripe for Mexico and the United States to proceed to eliminate over time, in a GATT-consistent fashion, substantially all the remaining impediments to the free flow of goods accross their border.

Toward a Free Trade Agreement

Between now and the completion of the Uruguay Round negotiations, the U.S. and Mexico should prepare the ground for negotiations on the FTA.

The governments and private sectors in both countries should take advantage of the fact-finding investigation on U.S.-Mexico trade relations carried out by the U.S. International Trade Commission; the recommendations of The Business Roundtable on the future of U.S.-Mexico relations; and the work and studies commissioned by the Mexico-U.S. Business Committee.

Mexico's political consensus

It should also be noted, that the Mexican Senate recently ended an important political process of consultation and consensus building through a "national dialogue" that concluded in the clear mandate to the Mexican administration to seek for the implementation of a free trade agreement with the United States based on a five-point recommendation. The agreement should provide for the opportunity to:

1. reduce non-tariff barriers on a reciprocal basis;
2. secure long term access to the U.S. market;
3. include a fair dispute settlement mechanism, and avoid the adoption of unilateral measures;
4. fully induce the complementary nature of the two economies; and
5. recognize the differences in level of development between our two countries.

Principles to Guide the Liberalization of Bilateral Trade

Thus, in the free trade agreement negotiations the two governments should establish to following clear goals:

1. Reaffirm their commitment to an open economy;
2. Liberalize substantially all trade between the United States and Mexico;
3. Meet the demands and challenges of the global marketplace by taking advantage of the complementary Mexico and U.S. economies; and
4. Give priority to steps which will improve the competitiveness of Mexico and the United States;

Elements of a Mexico-U.S. Free Trade Agreement

In outline form, a free trade agreement would include:

1. A program of staged tariff and non-tariff concessions by each country leading to the elimination of substantially all barriers to bilateral trade. Some barriers would be eliminated immediately. Others would be phased out over longer periods, depending on the country, the product, and the industry.

2. An early U.S. commitment to implement asymmetrical tariff and non-tariff concessions, by lowering and eliminating its barriers to certain Mexican products on a considerably shorter time schedule than Mexico -- perhaps in some cases immediately on signing the agreement, or, provisionally, at the start of negotiations. Such concessions would provide an important stimulus to investment in Mexico, yielding prompt benefits for both countries.

Such an asymmetrical treatment will also allow for Mexico to invest in the economic infrastructure that after a decade of economic crisis is clearly lagging behind.

The asymmetry would also be justified by Mexico's large unilateral tariff reduction since 1986.

3. An early Mexican commitment to maintain or reduce its current tariff levels for U.S. imports (with adequate escape clauses to permit changes dictated by Mexico's economic conditions) and its open trade policy;

4. A trade dispute settlement mechanism.

5. A safeguard clause for cases of serious injury caused by the reduction or elimination of barriers.

6. Periodic reviews of the Agreement. If the implementation of the agreed bilateral liberalization is not deemed satifactory, the process could be revised to address issues of mutual concern.

Conclusion

There are no two countries in the world more vital to each other's future prosperity than Mexico and the United States. There are no two countries in the world who have greater opportunities to benefit from each other than we do. Now is the time to act upon and to realize our joint economic destiny and negotiate a free trade agreement between our two countries.

The Mexican business community attaches a high priority to strengthening our nations' tradition of friendship and cooperation. Let us have the vision, the foresight, and the courage to realize our two futures together as independent, prosperous, equal nations.

Chairman Gibbons. Thank you.

Mr. Michie, the clock is running horribly against you. I hate to say that. But we are going to have to conclude these hearings in about 4½ minutes.

STATEMENT OF DONALD A. MICHIE, PH.D., DIRECTOR, INSTITUTE FOR MANUFACTURING AND MATERIALS MANAGEMENT, THE UNIVERSITY OF TEXAS AT EL PASO, ON BEHALF OF THE BORDER TRADE ALLIANCE

Mr. Michie. Thank you for the opportunity to be here today to testify on behalf of the free-trade agreement between the United States and Mexico.

I am going to take a slightly different approach to the presentation I give today. I want to talk about what does this free-trade agreement mean for the industrial development of the United States-Mexico border.

I am here today testifying on behalf of the Border Trade Alliance. My objective is to call for a program to integrate the Southwest border into the socioeconomic benefits of this agreement. The goal is to establish the border as an industrialized center of production as opposed to its present role as primarily a transshipment point for increased trade between the United States and Mexico.

Industrial competitiveness is the cornerstone of the globalized economy. Industrial competitiveness is the ability of a nation, industry, or company to offer its products and services at a competitive price in the marketplace while generating a reasonable rate of return on investment and maintaining a quality standard of living for labor. As such, industrial competitiveness is a function of costs, that is, the total cost of business.

This boils down to one simple statement. We have to be able to put a product on the shelf at a price that is competitive with other products on the shelf. And the reason, or one of the reasons we are not in the television business today in the United States is because we could not accomplish that task.

Government significantly influences our total cost of living structure. In fact, it is the responsibility of government to provide for a competitive cost environment. The industrial competitiveness of the United States-Mexico border has been well illustrated and documented by Mexico's maquiladora industry.

Despite the economic success of the maquiladoras, the industry has not contributed to the industrialization of the border economy. These increases in trade have contributed jobs, industrial park development, increased transportation and services, and caused other forms of economic development on the border to occur. But it has not industrialized the United States border with Mexico.

Industrialization requires the integration of such basic industries as tool and die and metal stamping and plastic injection molding, industries essential to support the manufacturing process. This type of development has not occurred to the degree that it ought to have.

After 25 years of the maquiladora industry, the maquiladoras continue to source less than 3 percent of their materials from border businesses.

Let me talk about the United States border with Mexico. You hear a lot of people refer to it as the border region. Economically, the concept of the United States-Mexico border region is a misnomer. Really there are five or more, depending on how you look at the issue, semiautonomous trade areas sharing a common border, each consisting of sister communities from the United States and Mexico.

I am a resident of the Paso de Norte area, which includes New Mexico, West Texas, and the State of Chihuahua. We are very well represented by our congressional delegation, one of the leaders being Congressman Bill Richardson. Unfortunately, the economic benefits of increased trade with Mexico have eluded the United States border with Mexico. Unemployment on the border ranges anywhere from 10 to 50 percent. Per capita income on the border ranks among the lowest anywhere in the United States.

Percentage of families with incomes below the poverty line ranges from 20 to 30 percent. Education is a major problem. Some 40 to 60 percent of U.S. residents on the border aged 25 or older lack a high school education. Retention rate, drop-out rate——

Chairman GIBBONS. Dr. Michie, I regret, but all of our time has run out. The clock has caught us. We are going to have to conclude this hearing for today. Of course, anything that you would like to add, we will put in the record. But we are going to have to meet again on this subject at 9:30 on June 28.

[The statement of Mr. Michie follows:]

Testimony of Dr. Donald A. Michie

My name is Donald A. Michie. I am director of the Institute for Manufacturing and Materials Management at The University of Texas at El Paso. I am also a member of the boards of directors of the El Paso Foreign Trade Association, The Texas/Mexico Authority and the Border Trade Alliance. I am co-chairperson of the Texas/Chihuahua Regional Development Commission. In these capacities, I am deeply involved in industrial development of the U.S.-Mexico border. My testimony is given on behalf of the Border Trade Alliance.

The purpose of my testimony today is to comment on the direction and industrial development implications of future bilateral trade relations between the United States and Mexico. I presume we are discussing a potential framework for a bilateral free trade agreement. Because others will testify as to its potential provisions, I will focus my comments on the industrial development implications such an agreement holds for the Southwest Region of the United States.

My objective is to call for a program to integrate the Southwest border into the socioeconomic benefits of this agreement. The goal is to establish the border as an industrialized center of production as opposed to its present role as primarily a transshipment point for increased trade between the United States and Mexico.

I will limit my remarks to the environment for trade, an environment that must be cost-competitive in the global economy. I will discuss trade initiatives, old and new, which I define as regulations, policies and practices undertaken by the United States government to administer trade with Mexico. The new initiatives may be either legislation or administrative rule making. The old initiatives are existing regulations, policies or practices intended to administer trade. Either set of trade initiatives may contain "inconsistencies," and, therefore, become non-tariff barriers to trade. Unless resolved, these inconsistencies increase the total cost of business environment, thereby reducing the industrial competitiveness of U.S. and Mexican products or services in the marketplace. We must, therefore, critic our trade initiatives with an eye to the internal consistency of administration, minimized total costs of business and the preservation of industrial competitiveness.

My testimony is divided into three sections: Background, U.S. Border With Mexico and Recommendations.

Background

Industrial competitiveness is the cornerstone of the globalized economy. Industrial competitiveness is the ability of a nation, industry or company to offer its products and services at a competitive price in the marketplace, while generating a reasonable rate of return on investment and maintaining a quality standard of living for labor. As such, industrial competitiveness is a function of costs, i.e., the total cost of business. Economic entities whose total cost of business including profit support a competitive price in the marketplace most generally maintain or increase market share, that is, enhance business performance.

A business' total cost structure consists of internally operational, i.e., controllable, or externally environmental, i.e., uncontrollable costs. The firm's business activities determine operational costs. Government is primarily responsible for environmental costs. Hence, government significantly determines a firm's total cost of business structure, therefore, its industrial competitiveness.

The industrial competitiveness of the U.S.-Mexico's border total cost of business environment has been well illustrated by Mexico's maquiladora industry. Testimony by industry experts has stated that fully burdened labor costs in Mexico alone save $5.09 or more per hour versus labor costs in the United States. These savings significantly explain the industry's double digit, annualized rate of growth (12-18%). The maquiladora's 1,795 companies imported more than $12.0 billion (1989) in components and products into the United States. These imports constitute approximately seventeen percent of total U.S. imports. Clearly, production sharing has been a viable business strategy used by American industry to maintain industrial competitiveness in the U.S. economy.

Despite the economic success of the maquiladoras, the industry has not contributed to the industrialization of the border economy. Of the total 1,795 plants, 1,417 (78.9%) are located within Mexico's Frontier states with the United States. These firms have contributed jobs, industrial park development, transportation, services and other forms of economic development to the border, but not industrialization. Industrialization requires the integration of basic industries, such as tool and die, metal stamping and plastic injection molding into the local economic base, industries essential to support the manufacturing process. This type of development has not occurred. After twenty-five years of operation, the industry continues to source less than 3 percent of its materials from border businesses. Unfortunately, Mexico's Border Industrialization Program (1965) has been the antithesis of industrialization.

United States Border With Mexico

Border scholars from the academic community often refer to the U.S. border with Mexico as the "Border Region." Economically, the concept of a U.S.-Mexico border region is a misnomer. There are really five or more semi-autonomous trade areas sharing a common border, each consisting of sister communities from the United States and Mexico. These trade areas are: California/Baja California (including San Diego/Tijuana and Calexico/Mexicali), Arizona/Sonora (including Nogales/Nogales), New Mexico/West Texas/Chihuahua (including Las Cruces/El Paso/Cd. Juarez), Texas/Nuevo Leon and Tamaulipas (including San Antonio/Laredo-Nuevo Laredo/Monterrey) and Texas/Tamaulipas (including Brownsville and McAllen/Matamoras and Reynosa). Each developed to service U.S.-Mexico commerce using major North-South trade routes. Subsequently, the maquiladoras have introduced some, but not sufficient, East-West trade to support the concept of a regional economy.

Unfortunately, the economic benefits of increased trade have eluded the U.S. border with Mexico. Despite the maquiladoras, unemployment among U.S. border counties ranges approximately from 10 to 50 percent. Per capita income ranks among the lowest nationally. Per capita incomes for counties such as El Paso, Cameron, Hidalgo and Webb are $10,804, $8,072, $7,613, and $7,572, respectively. Similarly, the percentage of families with incomes below the U.S. Census $12,500 poverty standard are 18.0% (El Paso), 26.0% (Cameron), 29.0% (Hidalgo) and 29.0% (Webb).

Education, too, is a problem. The percentage of U.S. border residents aged 25 or older who have not completed high school ranges between 40 and 60 percent. These and other statistics depict the U.S. border with Mexico as the poorest area in the United States.

Yet, the border represents a tremendous source of youthful labor for American industry. The median ages for the populations of

representative border counties is 25.0 (El Paso), 25.1 (Cameron), 24.2 (Hidalgo) and 23.6 (Webb). The Southwest states of the United States are the domestic labor pool for 21st Century American industry. The challenge is to integrate the Southwest with its labor pool and other resources into the mainstream of the U.S. economy.

Recommendations: New Trade Initiatives

The bilateral trade agreement is nearly an economic, if not political, reality. The trade liberalization policies begun by President Lopez Portillo and expanded by Presidents de la Madrid and Salinas de Gortari rank Mexico as the lowest tariff economy in Latin America. Mexico's 5 percent tariff for imports into its Frontier with the United States is tantamount to a border free trade zone. U.S. initiatives, however, remain proposals. Congressional bills by Senators Domenici and Gramm and those by Representatives Richardson, Kolbe and others have yet to be scrutinized by public debate. These initiatives and the recent visit by President Salinas de Gortari, however, have focused American attention on free trade. In this environment, the following trade-related initiatives are submitted:

Southwest Industrialization Program: As mentioned, the total cost of business environment "on the border" may well determine the future industrial competitiveness of U.S. and Mexican industries. Unfortunately, as illustrated, U.S.-Mexico border resources are not integrated well into the industrial competitiveness issue faced by the manufacturing industry. Further, the issue of industrial competitiveness is an urban, not rural, problem. The technical base used to support American agriculture and energy industries does not support major manufacturing industries. Is there "lower cost of business" available in rural America, a cost structure that the American manufacturing industries have yet to tap? How do we integrate rural America into our manufacturing base?

A three-part program is proposed to integrate Southwest resources into production sharing with Mexico. The program includes the creation of **database centers** necessary to facilitate business activity. For example, the centers would maintain a supplier/purchaser information system. The system would identify suppliers of materials and services including tool and die, metal stamping and plastic injection molding. It would also classify purchasers of materials by industry, company, and type and volume of materials consumed. SIC code information would then be used to match suitable suppliers and purchasers. In addition, the database centers would serve as "one stop" shops for socioeconomic information. The centers would track statistics, including labor skills, technical training programs, real estate industrial property and transactions, business start-up costs and other development related information.

These database centers would reside at regional universities or development foundations to take advantage of access to computer equipment, faculty and students.

Professional service centers would reside at local economic/industrial development foundations, extensions and companies networked by computer with the database centers. The functions of these service centers would be to a) bring regional suppliers and purchasers of materials and services together, b) expand suppliers' business capabilities to serve industry and c) develop joint venture business.

For instance, oil and copper industry machinists and suppliers located in Borger, Texas; Hobbs, New Mexico; or Globe, Arizona, would fill idle production capacity by using their technical expertise to service manufacturing industries in border and other communities. The database centers could identify "certifiable" machinists, match certification with "product/service" specifications, and report this information to professional service centers. Professional development staff would then perform their outreach activities.

Technology transfer would be a major responsibility of the database and professional service centers. The objective would be to integrate higher technology processes into production sharing industries. Technology from U.S. government laboratories - such as Los Alamos, Sandia or Livermore - would be screened for commercial application within Southwest industries. Technology transfer specialists would work with industry to upgrade manufacturing capabilities. This theme is proposed for a new international industrial community to be built at Santa Teresa, New Mexico. If successfully implemented, the U.S.-Mexico border will become the next industrial center of higher technology and production sharing manufacturing in support of North American industries.

Southwest Border Development Bank: A major barrier to the industrial development of the U.S.-Mexico border is the lack of investment capital. A guaranteed loan program backed by U.S. bonds would provide the necessary capital for investment in higher technology production sharing and supplier industries.

Southwest Border Free Trade Enclaves: A free trade agreement between the United States and Mexico will take probably ten years to negotiate, approve and implement. Special interests in both countries will oppose and favor specific provisions. As a prelude and pilot to the general agreement, the United States and Mexico should establish one or more trade area "free trade" centers on their common border. These FTCs would serve as pilots for the testing and implementation of the provisions of the general agreement.

These bi-national free trade centers (FTCs), are preferable to a single, border-wide free trade zone because the former are administratively manageable. To qualify, an FTC would have to be isolated geographically, have limited transportation access and concentrated commercial activity.

For instance, the Paso del Norte trade area might qualify as a free trade center. The trade area consists of the communities of El Paso in West Texas, Las Cruces and White Sands in Southern New Mexico, and Cd. Juarez in Mexico. Geographically, the FTC is isolated from major metropolitan areas in the United States and Mexico. Major U.S. and Mexican urban centers at least 200 miles distant: Tucson, Arizona (250 miles); Albuquerque, New Mexico (260 miles); Dallas, Texas (605 miles); and Chihuahua City, Mexico (220 miles).

The trade area is served by few highways. El Paso and Las Cruces are served by two interstate highways I-10 (East/West) and I-25 (North/South), and two state highways (Highways 70 and 54). Each of these highways is controlled by Border Patrol checkpoint stations. In addition, there are two airports, two bus terminals and an Amtrak station. Cd. Juarez is serviced by two highways (Pan American and the Casas Grandes), a major airport, a bus terminal and a train station. Hence, access is limited.

Commerce is concentrated. The trade area has the largest concentration of maquiladoras on the border. These plants import components and products under the Harmonized Tariff Codes 9802. The imports are primarily automotive and electronic parts and subassemblies. Because they are substantially line release and secure cargo shipments, the shipments are classified as minimum-risk by U.S. Customs. These characteristics of the commerce make the trade area ideal for the implementation of trade sector provisions in automotive and electronics.

The administration of the FTC would involve products, services and people. Products and services would be subjected to commercial inspection by U.S. Customs at major inspection centers, including import/export lots at border crossings, airports, other transportation centers and Border Patrol check points on major highways leaving the trade area. Shipments would enter the FTC in-bound to be processed or consumed within the FTC without duty. Exports would be subject to duty upon entry into any domestic economy worldwide.

People would be subject to INS inspection at border crossings, but primary inspection would occur at Border Patrol check points along major transportation arteries. Crossing the international boundary would be free to those visiting relatives or shopping within the FTC. People seeking work would be required to comply with existing INS employment regulations. Passage beyond the FTC would require proper INS documentation. The effect of this "people" program would be to reduce inspections from 42.0 million per year at local border crossings to 6.0 million or less per year at major transportation centers exiting the outside trade area.

Recommendations: Old Initiatives

As U.S. and Mexican industries seek to take advantage of these new trade initiatives, existing trade regulations, policies and practices must be reviewed for consistency with free trade. Inconsistencies become non-tariff barriers to trade and serve to increase the total cost of business. Unless remedied, products and services become less competitive in the global marketplace.

The following recommendations are suggested to reduce non-tariff barriers to trade:

1. **Southwest Border Administration Region:** The administration of trade with Mexico can be simplified if U.S. regulatory agencies serve a single, common administrative region along the border.

2. **Centralized Port Management:** The inefficiencies of five or more independent U.S. government agencies attempting to administer a port of entry can no longer be tolerated. The impact on business costs is too high. There should be either a) centralized management by U.S. Customs or an external entity or b) single agency staffing of primary inspection facilities.

3. **Joint U.S.-Mexican Agencies' Planning:** Efficiencies in trade could be enhanced by joint planning of facilities and documentation.

4. **Joint U.S.-Mexican Agencies' Operations:** The customs procedures of both nations could be streamlined if policies and procedures were administered in common. For example, the import lot of the respective agencies could accommodate the export documentation and inspection of the other.

5. **Deregulation of Mexican Transportation Industry:** Deregulation of the Mexican transportation industry, particularly trucking, must include foreign participation. Mexico's recent efforts to deregulate may have added to domestic carrier services, but the program did not introduce price competition to the industry.

    a. **Reciprocity:** Recent changes to the regulation of U.S. and Mexican commercial motor carriers did not open Mexico's Frontier states to access by U.S. commercial motor carriers.

    b. **Foreign Investment:** Improvement in all services to include intermodal will require Mexico to invite foreign investment in transportation equipment and facilities. Mexico must permit minority investment in its transportation industry.

    c. **Foreign Operations:** At this time, U.S. commercial motor carriers are not authorized to provide transportation services in Mexico. Maquiladoras, as Mexican corporations, are permitted to provide private services, but the industry is not authorized to contract directly with U.S. commercial carriers for services in Mexico.

d. Intermodal Facilities: Mexico lacks adequate intermodal facilities and services to accommodate increased volumes of U.S.-Mexico trade. Intermodal services would be encouraged by foreign investment in the transportation industry in Mexico.

6. Border Infrastructure Development: Infrastructure development along the Mexican border with the United States is inadequate. There are critical shortages of housing, water, sewage, waste management facilities and other infrastructure. Changes in U.S. policies such as IRS Ruling 87-124, which states that banks can donate portions of foreign debt to "debt for development" swaps, would be helpful in attracting investment capital to resolve certain of these problems.

The implementation of these trade initiatives would serve to create a lower total cost of business environment for the U.S. border with Mexico and to enhance the industrial competitiveness of American and Mexican industries. If managed properly, these benefits would stimulate industrial development in the poorest region of the United States, making the American Dream of accumulated wealth a reality for border residents.

In conclusion, this testimony presupposes a future bilateral free trade agreement between the United States and Mexico. This agreement is likely to be followed by a North American Free Trade Agreement to include Canada. The trade initiatives suggested are intended to pave the way for these forthcoming economic realities. Whatever initiatives are undertaken, however, must be sensitive to the "full and equal partnership" of Mexico. Mexico's participation is not essential as a source of cheap labor and raw materials. Rather, Mexico's resources are equally important with U.S. and Canadian technology and services to a globally competitive position as "a major production sharing center and market for high technology manufacturing" for the U.S. border with Mexico.

Chairman **Gibbons**. This has been a very informative set of hearings.

The floor takes precedence over what we can do for the rest of the day.

Thank you very much.

[Whereupon, at 2:32 p.m., the subcommittee adjourned, to reconvene on June 28, 1990, at 9:30 a.m.]

UNITED STATES-MEXICO ECONOMIC RELATIONS

THURSDAY, JUNE 28, 1990

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:34 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen.

As I think everyone in the room knows, this is a hearing on the request by the people who are deeply interested in it on the possibilities and the problems of a free-trade agreement between the United States and Mexico, modeled upon the one that we have entered into with Canada and with Israel, trying to expand free, open, competitive, fair markets, not only in our hemisphere, not only here in North America, but throughout the world.

We want no one to think that we are trying to create an exclusive trade bloc. What we do is intended to, and I hope will, promote freer and open trade, fair trade, competitive trade throughout the world.

This is just the second of a series of hearings that we will have on this subject. I do not expect that this Congress will take any kind of action until early next year, because our principal and primary goal for this year and certainly for early next year is the completion of a successful Uruguay round under the GATT.

We expect—and there must be some very hard work done, and there must be some giving and some taking on the part of all partners—to have that round successfully completed. We are looking forward to a successful July meeting. We are hoping that our European trading partners will realize the responsibility that rests on their shoulders to be forthcoming in the area of agriculture. We are ready to work with them. And we probably have as many problems with our agricultural system as they have with theirs, but they, as far as I have been able to determine, have not signified that they are willing and ready to move.

Now, we have a long set of witnesses today. I am going to ask all of the panel participants to rest assured that their remarks will be included in full, their written remarks as well as their oral remarks, in the printed record. And I would ask all panelists to try to summarize their statements within 5 to not more than 7 minutes' time so that we will have adequate time for everyone.

Today may be interrupted, as many days are interrupted, by rollcalls on the floor or business on the floor. We will attempt to go right straight through today unless around noontime I find and the committee agrees that there are just too many problems, and we may break for lunch. So please be close and careful and attentive to perhaps that change of plans.

I have asked Mr. Richardson, who has been the principal sponsor of this initiative, tbe sparkplug behind it, to come and sit with us today. Bill, I welcome you and salute you for what you have started and what you have been able to accomplish so far. I signify to you that we are certainly willing to work with you on all of this.

Would you like to make a statement before we start?

Mr. RICHARDSON. [Hon. Bill Richardson, a Representative in Congress from the State of New Mexico]. Mr. Chairman, thank you very much. Thank you very the courtesy extended to me by you in this committee.

First of all, I am very pleased that you scheduled a second day of hearings. I am very pleased that you have an outstanding series of witnesses, both pro and con. We are going to be hearing, I see, from our friends from the labor community. I also especially want to note, Mr. Chairman, a little bit of New Mexico in these hearings in that Charles Crowder, who will be probably the main sparkplug in the State of New Mexico for the opening of a new border crossing with Mexico indicative of President Salinas' new openness in international trade and commerce, will be testifying later.

Mr. Chairman, again, you are the main architect of free trade in this Congress, and any time any issue gains your interest and visibility by you, it means that it is OK; it means that it is ready to go. So I am here thanking you for holding these hearings.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

All right. We have today the Honorable William D. Rogers, former Assistant Secretary of State for Inter-American Affairs and the former Under Secretary of State for Economic Affairs. Mr. Rogers is an old friend of ours in Government—I should say a friend of long standing. Mr. Rogers, you just take right off.

STATEMENT OF HON. WILLIAM D. ROGERS, WASHINGTON, D.C., FORMER ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS, AND FORMER UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. ROGERS. I am afraid you were right the first time, Mr. Chairman.

It is a pleasure to be here, particularly on this issue. And I must say I commend with all the warmth I can muster you and Bill Richardson and the other Members of this Congress for their interest in the issue and organizing such a serious set of hearings on the question—well in advance of the decisionmaking time, of course, but hearings which I think will prepare the Congress for the important decisions that it will have to take with respect to this issue.

I come, Mr. Chairman, from a very moving experience as cochairman with Senator Margain, whom you will remember as former Ambassador of Mexico in Washington, of the Ford Foundation-funded commission on the future of bilateral relations between the United States and Mexico. The commission itself was composed of a group of nine distinguished Mexican citizens of various walks of life, as well as nine Americans.

We held hearings all over Mexico and all over the United States. It was a remarkable experience because it demonstrated to us most vividly, in ways which we hope we captured in our report, "The Challenge of Interdependence," both the extraordinarily diverse historic experience of the two countries, the extraordinary differences between them as they exist today. The Mexican-United States border, as you know, is the longest border between a rich and a poor country in the world—and yet the increasing commonality of our future and our destiny in the world ahead.

The commission came to a number of conclusions in a variety of areas, but the one I want to stress today is its strong recommendation that the trade relationship between Mexico and the United States be strengthened through measures of further integration. We came to that conclusion much to my surprise. I had no idea that the facts were as consistent with a strengthening of the trade relationship between the two countries as they were, nor did I comprehend how strongly Mexican opinion and attitude has shifted on this issue from its position of some years ago when there was deep and abiding hostility to the idea of further integration.

The reason that has occurred, of course, Mr. Chairman, is, as a number of witnesses before me have testified to you, the revolution which has occurred in Mexico, the economic revolution—which I think in many ways is as profound and serious and deep as the economic revolution which has occurred in Eastern Europe, but I think in many ways far less well understood. The rapid movement towards the opening of the economy, reduction of tariffs, dismantling of licensing and other import controls, the radical internal change within Mexico itself with privatization, and Mexico's grasping of control over its public sector expenditures have turned Mexican opinion upside down, and have also, in my judgment, made possible for the first time the proposal which President Salinas has advanced and which has been endorsed by our executive branch, a free-trade agreement between Mexico and the United States.

I warmly endorse such an agreement. In my judgment, it could extraordinarily benefit both countries. I might add that I believe, and the commission concluded, that in all probability the Israeli agreement is in some ways a more apt model than the Canadian agreement. An agreement, in my judgment, is in the interests of both countries. It could look toward the effective dismantling, on an asymmetrical basis, of trade restraints over time. In my judgment, Mexico ought to be allowed a longer period of time to make that adjustment than the United States. We should expect Mexico to continue to improve its intellectual property protection, expand access to services, such as trucking and banking, liberalize its laws against foreign investment further. In my judgment, the agreement ought to reach toward a commitment by both countries with respect to more open public procurement, liberalize existing restraints on textiles, steel and cars, and dismantle NTB's and other barriers to agriculture.

In my judgment, the economies of the integration movement are remarkably beneficial to both countries. This basically arises from the fact that the propensity to import from the United States in Mexico is much stronger than in almost any other country, thus indicating that as Mexico's economy grows through exports to the United States, the United States will benefit more directly from that than would export increases by virtually any other country in the world.

I would like to also commend the President's suggestion that we move beyond Mexico to the rest of Latin America in considering freer trading arrangements. In my judgment, what is on offer to Mexico ought to be, as the President suggested yesterday in his statement in the White House, on offer to the other countries of the hemisphere: the possibility in the first instance of framework agreements permitting bilateral negotiation on specific sectoral trade-freeing measures, and the possibility beyond that of free-trade agreements in a generalized form of the kind we are now considering in the case of Mexico.

You mentioned, Mr. Chairman, the relationship of this proposal to the Uruguay round. Clearly, the Uruguay round has to be paramount in our concern at the present time. But, in my judgment, what we are considering here—a free-trade arrangement with Mexico—is not the construction of a Fortress America to respond to a Fortress Europe, but an effort to create a freer trading hemisphere, our hemisphere, whose member nations can more quickly assume their rightful place, which they lost in the decade of the 1980's, which was a lost decade for all of Latin America, beside the nations of the Orient and Europe as growing, internationally competitive economies.

Thank you, Mr. Chairman.

[The statement of Mr. Rogers follows:]

STATEMENT OF WILLIAM D. ROGERS

BEFORE THE WAYS AND MEANS SUBCOMMITTEE ON TRADE

JUNE 28, 1990

WILLIAM D. ROGERS

FORMER ASSISTANT SECRETARY OF STATE
FOR INTER-AMERICAN AFFAIRS

FORMER UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS

Mr. Chairman and Members of Congress, I appreciate the opportunity to voice my support for a U.S.-Mexico Free Trade Agreement. I thank the Committee for the opportunity to say a word on this timely and important issue.

I.

Beginning in 1986, former Mexican Ambassador to the U.S., now Senator Hugo Margain and I served as cochairmen of the Bilateral Commission on the Future of U.S.-Mexican Relations. The Commission consisted of distinguished citizens from both Mexico and the United States.[1] The Mexican delegation included political leaders from both the PRI and the PAN parties, businessmen, Mexico's leading scholar of U.S.-Mexican relations, and publicists -- a broad-ranged group. On the U.S. side, it included business, government and labor. We worked together for two years, soliciting the opinions of leading specialists from both nations. These witnesses included relevant Cabinet and other current and former government officials, business leaders and other wise heads. We explored the nature of the relationship between the U.S. and Mexico; we surveyed the economies, histories, and politics of both countries; and we analyzed the problems of migration, drugs, and divergent foreign policies.

In 1989 we published our findings in a report entitled The Challenge of Interdependence: Mexico and the United States. The report was something of a milestone of the improvement in U.S.-Mexican relations in recent years. Despite the diversity of interests represented on the Commission, the report was virtually unanimous. Completed prior to the inaugurations of Presidents Bush and Salinas, the report outlined the mutual need and the interdependence which exists between

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[1] Its members: Hector Aguilar Camin, Gilberto Borja, Yvonne Brathwaite Burke, Juan Jose Bremer, Fernando Canales Clariond, Henry Cisneros, Socorro Diaz, Lawrence S. Eagleburger, Ernesto Fernandez Hurtado, Carlos Fuentes, Roger W. Heyns, Nancy Landon Kassebaum, Hugo B. Margain, Robert S. McNamara, Mario Ojeda, Charles W. Parry, William D. Rogers and Glenn E. Watts.

Mexico and the U.S. and offered recommendations for increasing integration, liberalizing trade, and stimulating their economies to mutual advantage.

In the report, we argued that the two states now shared an opportunity to use their proximity and resources to the remarkable advantage of both. The Commission became persuaded that the nations are inextricably bound together by geography, trade, investment and personal ties. We concluded that the two nations had a special -- and absolutely unique -- relationship. Our long border divides, but cannot separate, the two nations.

It is the longest line in the world dividing a rich nation and a poor one. There is no other like it. And we have followed different roads. Our national experiences have been vastly different. We stand in marked cultural and historic contrast.

In this Century, the United States and Mexico, except in times of grave national crisis such as World War II and the Cuban Missile Crisis, have often found little common foreign policy ground. We have often been at public odds with Mexico on issues before the United Nations.

Yet, in spite of a long history of differences, the Commission came to the unanimous conclusion that our nations share an increasingly common destiny. The evidence is everywhere -- in existing trade levels which have made the U.S. the primary market for Mexican exports and Mexico the third most important for U.S. output; in investment (Mexico accounts for an important fraction of our total overseas private investment); in the movement of peoples (Mexico is far and away the most important source of total migration into the United States); in travel (for the U.S. more people transit to and from Mexico than with any other country).

Changes in the economies of each country have significant impacts on the other. A shift of one percentage point in the U.S. interest rate can raise or lower Mexico's annual debt service obligations by as much as one billion dollars. At the same time, a slowdown of the Mexican economy means substantial declines in U.S. exports to Mexico. During the recent economic crisis in Mexico, U.S. exports dropped by $8.7 billion, resulting in a loss of approximately 220,000 American jobs. Finally a depressed Mexican economy affects the U.S. by increasing the flow of Mexican workers seeking access to the United States job market to support themselves and their families.

In addition to the economic effects of each country on the other, there are innumerable ways in which the two nations have gradually become integrated. Cultural norms transcend the boundary between Mexico and the United States, affecting the populations of both countries. Close to 300 million people cross the border each year, taking their political ideas, language, and culture with them. U.S. television is available throughout Mexico while an estimated 10 to 20 million

Spanish speaking persons in the U.S. listen to the broadcasts of the Mexican-owned Univision, which comes directly from Mexico City. A large number of Mexicans, including President Salinas, have been educated at universities in the U.S.

In short, as the Commission concluded:

> "The relationship between Mexico and the United States has no counterpart anywhere in the world. Nowhere else do two close neighbors reflect such sharp differences or share such common interests. Imbued with dissimilar cultural legacies, Mexico and the U.S. have traversed divergent historical paths. One is rich, the other not. They have forged contrasting models of social organization. They speak different languages and follow different customs. And they have constructed distinct perspectives on the international arena. This is a remarkable juxtaposition of societies, one that vividly illustrates the gap between the developed and the developing worlds.
>
> "But Mexico and the United States share common interests -- including a 2,000-mile border -- and for this reason the relationship is steadily gaining importance. As both societies undergo rapid change they are exerting increasing influence upon each other -- economically, socially, politically, and diplomatically. As international realities become ever more complex, so does the bilateral relation, and the two countries need each other all the more. Each has an abiding interest in the wellbeing of the other." (Emphasis added.)

II.

This is an extraordinary era. Within the last few months, we have witnessed the disintegration of the external Soviet Empire, the dismantling of the Berlin Wall, the beginning of the end of Apartheid in South Africa, and the political opening of the Soviet Union. These events have captured the attention of the world. But at the very same time, though with far less international attention and understanding, Mexico has undergone its own revolution.

This revolution is in many ways as profound as those which have occurred in Eastern Europe. It is nothing short of the restructuring of the Mexican economy. The significance of the change of course in Mexico is captured by the simple fact that public expenditures on goods and services went down by nine full points of GDP. The primary fiscal balance has been changed in a few years from a deficit of five percent of GDP to a surplus of seven percent. The result is that for the second consecutive year the economy grew faster than the population, and all the signs point to further expansion this year. Yet at the same time, inflation has been reduced from 150 percent in 1987 to 50 percent in 1988 and to below 20 percent in 1989.

These changes are the surface reflection of a profound redesign of the Mexican economy. It has been wrenched open. Four years ago 92 percent of imports were subject to licenses and permits; the average tariff was 47 percent and the maximum 300 percent. Today the average tariff is nine percent and the maximum is 20. No permits or licenses are required. Mexico has joined GATT.

The consequences have been remarkable, and speak volumes about the promise of further trade enhancement measures between the United States and Mexico. Imports have increased since the reform began, and so have exports. Non-oil exports from Mexico have grown by 300 percent in five years. Seventy percent of its exports are now products other than oil.

This restructuring of the Mexican economy has been a progressive movement, shifting resources, expenditures, subsidies, preferences and privileges from the vested interests to the people. The privatization program has already reduced the number of companies in the public sector by about two-thirds, to less than 400 firms still owned by the government. Results have been dramatic. Aeromexico had been in the public sector for 25 years. It never made a dime. The government ploughed $2.7 billion into it by way of subsidies over the years. And yet, as Pedro Aspe, Mexican Minister of Finance, likes to point out, only about one Mexican in every 10 had ever even been on an airplane. The company was sold recently. It is making money for the first time. And paying taxes. And it is growing at 15 percent a year. The subsidies that were sunk in Aeromexico and other public enterprises can now be dedicated to the true business of government -- education, health services, roads and other infrastructure.

In the area of taxation, Mexico is also moving towards a more equitable and efficient policy. In the past the need for money to pay for expanded public sector activity has been met by simply raising tax rates. In recent months, however, marginal tax rates have been lowered to internationally competitive levels; audits have increased and enforcement is biting. Between 1921 and 1988 only two cases of tax evasion had been brought to court in Mexico. Last year the government instituted 117 cases. This year even more are promised.

For decades, much of the Mexican economy was off-limits to the tax collector. Newspapers, cooperatives, every farm in Mexico, fisheries, banks -- none paid taxes. The tax exemptions covered 17 percent of Mexico's gross domestic product. Now these special treatments have been eliminated. Seventeen percent of the Mexican economy has all at once been brought into the revenue system.

In short, Mexico is being tough on taxes. With these measures, it will be able to finance itself domestically, even with lower marginal tax rates, and can increase fiscal revenues by two percentage points of GDP in the next two years.

III.

We should seize this moment. This is the time to reinforce, to our mutual advantage, the ties that already bind us together. The economic and political changes going forward in Mexico now present us with the ideal opportunity to establish a new and deeper relationship. I commend President Salinas' free trade agreement initiative; I commend the two Presidents for their joint statement announcing the talks; and I commend the Congress for its concurrent resolution supporting and encouraging the Administration in these efforts.

In my view, the free trade agreement could:

-- establish as its objective the elimination over time of virtually all restraints on trade and investment between the two nations;

-- provide that the tariffs and other barriers affecting "substantially all" U.S.-Mexican trade would be dismantled asymmetrically. (The United States would reduce its barriers on a shorter time schedule than Mexico, in part because Mexico cut its protectionism so radically in recent years, in part because certain sectors of Mexican industry justify a longer transition period);

-- arrange that Mexico should improve its intellectual property protection, expand access for services and scale down the still extensive and uneconomic restraints it imposes on foreign investors, and as well as the procedural hurdles which foreign investors still face in Mexico;

-- open up public procurement;

-- provide for safeguards in case of serious injury caused by the elimination of trade barriers;

-- commit the two nations to bilateral liberalization, over time, of the existing restraints on textiles, steel, and autos and parts; and

-- dismantle NTB's and other barriers to agriculture.

Such an agreement would be to the mutual advantage of both countries:

1. It is an iron law of economics that trade liberalization measures are growth-enhancing. That truism must be particularly apt in the case of the U.S.-Mexican relationship. We share enormous complementaries. The opportunities for increasing the efficiency of investment of resources, and the enlargement of the markets which may be served by the production of goods or services in one or the other country, will be overwhelming. The macroeconomics of

the free trade area between the two countries are plainly favorable.

2. It would have been impossible to press forward with trade liberalization during the long decades of Mexican protectionism. While its own industry and agriculture were protected behind stout tariff and NTB walls, while they were nurtured by a constant stream of special favors, tax exemptions and subsidies, those industries could not compete on an international scale. And by the same token, no Mexican administration could have contemplated the investment-opening policies which are an essential part of an effective free trade arrangement. Now that has all changed. Mexico's economy is outward-looking, and ready to compete. Freer trade is not only economically desirable, it is politically possible.

3. One of the most important barriers to export investment in Mexico is the uncertainty engendered by our own trade laws. Mexican exporters are intimidated by what they see as the potentially Draconian penalties and the capricious procedures for unilateral Department of Commerce determination of dumping and export subsidy claims by American firms seeking protection from Mexican competition. An effective dispute resolution provision for Mexico which could introduce an element of predictability would make a world of difference to Mexican industry and investors.

4. Our difficulties with Mexico -- the traffic in narcotics and the movement of undocumented aliens -- are at bottom the manifestations of economic circumstance. At the end of the day they will only yield to economic solutions. The Mexican economy must grow; if it does, this will redound to the benefit of this country as well. If Mexico fails in its efforts to adapt and develop, the consequences will be an increasing flow of people and drugs. As Carlos Salinas has said, Mexico would much prefer to export products than workers. That is our national preference as well. A bilateral trade agreement is the best possible next step we can take on the drug and migration issues.

5. Of course, from the perspective of abstract economics, generalized free trade with all countries in all the factors of production would be best. But this, I have sadly concluded, is not an ideal world. The good is often proxy for the best. And so it is in the arena of trade. Special trading relationships, free trade areas, common markets, preference systems and bilateral trade agreements litter the landscape. And the people of the world are better off for those measures which liberalize trade, even if those measures are not universal and are instead restricted to a few trading partners.

The trend will continue. Europe is rushing headlong to the single market in 1992. We have, at the same time, established a new free trade arrangement with Canada, which considerably enhances the respective advantages of each country's exporters in the other country, admittedly to the minor comparative disadvantage of competitors in Europe and Japan. In both instances, the economic gains from the expansion of bilateral trade will outweigh the comparative disadvantage accruing to local exporters compared with those located in third countries.

East and South Asia demonstrate the crucial importance to developing countries of access to an open market at the top of the developmental chain. The fact that the Asian Tigers had a vast market in the United States was critical to their success; the United States was a strong absorber for East and South Asia, as well as for Japan. This is the essential reason why those countries grew so rapidly in the Seventies and why they were able to continue to grow during the Eighties, when Latin America was stagnating. Now, however, it would be wise for Japan to take on the role of absorber for Asia, and to do for Indonesia, Thailand and Malaysia, what the U.S. did for the Four Tigers. It is now in our national interest to become the absorber at the top of the economic ladder for Mexico -- and for Brazil, Argentina and Venezuela, as well, in my view.

The reason: quite simply, that Mexico has and always will reflect a higher propensity to import from the United States than will the countries at the far end of the Pacific Rim. The contraction of Mexican imports during the debt crisis years of the 1980's affected the United States overwhelmingly; most of the jobs worldwide which were lost were American jobs. We have an opportunity to reverse this trend. A free trade agreement would shift our absorptive capacity toward Mexico. This would not only contribute to Mexican development but to growth in the United States as well.

6. The institution of a formal agreement between the two countries for trade and investment liberalization would reinforce the already favorable reaction in world capital markets to what Mexico has done thus far. Pedro Aspe reports that the initial response to Mexico's structural reforms, and particularly the debt agreement, is encouraging. $2.7 billion of capital has found its way back to Mexico. But since the reforms were unilateral, there is no assurance that Mexico may not reverse course in the future. A free trade agreement with the United States would embed Mexico's recent investment and trade advances in the cement of a bilateral commitment.

World capital is going to be short in the years to come. There is precious little prospect, I fear, for increasing the savings rates in the major countries -- particularly in the United States, given our own fiscal mess. United Germany, the nations of East Europe, and from all appearances the Soviet Union itself, are going to be hungry for capital to finance their own forced draft growth. Mexico's competitive position in world capital markets, its ability to attract its fair share of the world's limited savings pool, would be considerably enhanced by the FTA which has been proposed.

7. What of the rest of Latin America? In my view, I would hope that, after careful consultation with the other leaders in Latin America, President Bush could announce during his September trip a collaborative effort in trade, essentially extending to the rest of Latin America what is now on offer to Mexico. This could consist of two parts -- first, a country-by-country series of framework agreements modeled on the existing agreement with Mexico, by which the United States and each of its trading partners in Latin America would explore specific sectoral trade and investment concessions; and second, a commitment by Mexico and the United States to extend to the rest of Latin America whatever may emerge from their own bilateral free trade arrangement. Something of this sort would be embraced by the other countries of the Americas, I believe, because it would demonstrate that the rest of Latin America was not at risk of being frozen out of a world dissolving into trading blocs, and second, because it would avoid a sense that Mexico was eroding Latin unity by entering into a far-reaching and exclusive arrangement with the United States.

8. Finally, what of the Mexico-U.S. agreement and its impact on the Uruguay Round? This is a serious issue. The success of the Uruguay Round is a matter of first priority concern for all. But bilateral trade concessions, particularly those relating to non-tariff barriers, which are the more significant today, would not create a conflict, any more than the Single Market in Europe cuts across the multilateral bargaining effort. The expansion of bilateral trading opportunities is not a challenge to the Uruguay Round but can serve to supplement it, and indeed even to provide some further motivation to the global parties to succeed in that vastly more complex effort. The objective would not be a Fortress America to retaliate against a Fortress Europe, but rather a freer trading Hemisphere, whose members can more quickly take their places beside the nations of Europe and the Orient as growing, internationally competitive economies.

Chairman GIBBONS. Thank you, Mr. Rogers.

I noted this morning yesterday's statement by the President about offering freer trade arrangements with our other South American friends and Central American friends. And although I have not talked with any member of the administration or with the President about his proposal, I was glad to see it. I think it signifies something that we ought to seriously consider. But I will have to say, if they mean what they are talking about down at the White House, they have got to be a lot more vigorous on Mexico and on the other Central and South American friends than they have been in the Caribbean initiative.

It has been like dragging fire out of a furnace to get them to do anything that will help us. We couldn't get any cooperation on sugar. We haven't been able to get any cooperation on most other products that the Caribbean would really be able to produce. And every time they seem to produce something, we whack it off. And when the Caribbean bill left here finally—it was weak enough when it left the House, and then the Senate loaded it up with every extraneous dog or cat they could find around over there. Senator Dole has been trying to add on his pet subsidy for alcohol, not the drinking kind but the other kind of alcohol.

You know, we get no push from the administration, no push from the Senate, and not even a healthy nudge from the House. So public opinion is going to have to be mobilized so that the White House and the Senate and even the House of Representatives will feel much urgency about any of this.

I think it was important to point out that we are the wealthiest country of the world sitting right next with the longest boundary with one of the poorest countries on earth. Frankly, I had not detected the change of opinion in Mexico. I visited there as recently as a couple years ago, and I had visited there extensively in the early 1980's. But I am glad it apparently has taken place because at that time I found a very hostile attitude toward anything except something like the maquiladora program along the border, and even some skepticism about that. So I appreciate your bringing this to us.

What kind of private sector support do you see out in America for an arrangement such as this?

Mr. ROGERS. In the United States?

Chairman GIBBONS. Yes, sir, in the United States. I should have said in the United States. That is correct.

Mr. ROGERS. Well, I think, Mr. Chairman, you will find—and you will hear from other witnesses who are going to testify to you today—that there is remarkably strong support within the private sector. The Council of the Americas, in particular, and the Americas Society, whose members are U.S. enterprises with interests in Latin America, have warmly endorsed the prospect of a free-trade agreement. And I think that American industry by and large sees the distinct advantage to the American economy from a free-trade arrangement with Mexico.

Chairman GIBBONS. Well, do you think the American people see the intolerable inconsistent position of having rich and poor live next to each other with a common line drawn on a map, and that is all, to separate the two societies: the problems of immigration, the problems of all the other things that haunt us, such as the temptation to deal in drugs and everything else when you really are a have-not? Do you think the American people see that and feel that and recognize the necessity in their own self-interest to do something about this?

Mr. ROGERS. I think that is increasingly obvious, Congressman. You see it in the extraordinary response to the drug problem in this country. And I think that it is becoming increasingly clear to the American people that, at bottom, our problems with Mexico, which are basically illegal, undocumented migration on the one hand and drug trafficking on the other, are responses to the economic circumstance in Mexico. As President Salinas has said, they would much rather export products than people, much prefer to provide jobs for the people of Mexico in Mexico than in the United States.

The solution, therefore, at the end of the day is only going to be economic. We have got to solve the economic problem—and I think that is dawning on the American people, and I think, therefore, that they will see the free-trade agreement as something more than just an economic measure. It is a response to the profound social problems in Mexico which are having an impact on the United States. So I think you are going to see support for the measure in a broader than economic sense.

Chairman GIBBONS. Mr. Guarini, would you like to question?

Mr. GUARINI. Yes. Mr. Secretary, have you had a chance to look at the President's suggested program and the initiatives in what he calls "Enterprise for the Americas" that was referred to?

Mr. ROGERS. Yes, Congressman, I have seen it. I have seen the factsheet as well.

Mr. GUARINI. They are trade initiatives, investment initiatives, and debt forgiveness, debt initiatives. Have you had an opportunity to think about it, so that you may share your thoughts with us concerning the President's proposal that was just set forth yesterday? I know you haven't had a lot of time to think about it, but since you have written about the subject matter and you have been deeply involved in policy decisionmaking, perhaps you can share with us what your thoughts are at this time.

Mr. ROGERS. Thank you, Congressman. I have made several addresses in recent months suggesting that this country expand its consideration of trade-freeing negotiations beyond Mexico, to include the other countries of Latin America, both in terms of bilateral framework agreements—which, as you know, essentially are designed to address specific sectoral trade-liberalizing negotiations, as well as dispute resolution and some other measures, investment measures—both in terms of bilateral framework agreements and in terms of a general free-trade agreement. I have suggested that what we have now on offer to Mexico we open up to the rest of Latin America.

That is essentially what the President proposed yesterday. I don't mean to take credit for his proposal, but I had endorsed it earlier on. And I continue to think that it is a highly desirable idea for a variety of reasons: (*a*) it makes economic sense; (*b*) I think politically it is helpful to demonstrate to the rest of Latin America that what we are doing in the case of Mexico is not designed to create a wall around North America; and that, indeed, Mexico is not turning its back on the rest of Latin America, and that we are attempting to promote measures, including trade liberalization as well as debt forgiveness and investment, which will help Latin America dig out from the awful pit that it found itself in throughout the 1980's.

For Latin America, unlike Europe, the United States, the Orient, the 1980's was a lost decade. Latin America went sideways. Actual consumption levels declined on average throughout the hemisphere. It was the one area, except for sub-Saharan Africa, that actually went through a decline in living standards for a whole decade.

Important measures are in order, particularly because it happens to be our hemisphere. And I think the kind of measures the President was proposing, including the trade liberalization suggestions, extending to the rest of the hemisphere what Mexico is now considering with the United States, are highly desirable.

Mr. **Guarini**. We have been often criticized as being inconsistent and incomplete in our policies towards South America. Many of the countries there look upon us as less than good friends, and there is a certain amount of ill feeling because of our unevenhandedness as to the way we administer foreign policy. Of course, you were there during some of these days. We have had, going back into the early years of Roosevelt, the Good Neighbor Policy and the Alliance for Progress under President Kennedy. Hopefully, we will be able to get a full national policy or strategy for this hemisphere, and like we have done with Canada, hopefully we could have a long-range plan that would do very well for the national security of this hemisphere, as well as for the economic development. Europe is doing it, and the Far East, of course, is getting its act together. I think it is probably very important that we have a strategy here in our country.

But how would you handle the debt forgiveness? Just write it off? There are a lot of agencies that are owed money from these different countries. The private debt, of course, would be a matter for the banks, but there is considerable public debt. Have you given thought as to how you would handle that in dealing with these countries that are really less than developed countries and are very heavily in debt?

Mr. **Rogers**. Well, I think the point there, Mr. Guarini, is that the President proposes to extend to the public debt the debt forgiveness and debt reduction measures which the Brady plan essentially has, as the banks would like to put it, imposed on or created for the privately held debt. It essentially amounts to a write-down either of the debt servicing obligations, the interest payments per year, or the face amount of the debt.

What happened, of course, was that the Brady plan benefited primarily those countries where the preponderance of the debt was held by the banks, which included Mexico, Brazil, and Venezuela. Because it didn't reach the public debt, it did not benefit the countries like Jamaica where the great preponderance of debt was publicly held debt. So the fact of the matter was that poor Jamaica saw these marvelous debt write-downs that were going forward in the case of the Mexican package and are now coming up in the case of the Venezuelan package, and he didn't get any relief, as he indicated when he was up here. I don't know whether you had a chance to talk with him when he was here.

The proposal of the President yesterday is basically designed to help countries like Jamaica, small countries where the preponderance of the debt is publicly held. I assume it would have to be a legislatively approved write-down of the publicly held debt. But it would be, I think, highly desirable in the case of those few small countries which have borrowed primarily from public sector lending enterprises.

Mr. GUARINI. Thank you very much, sir.

Thank you, Mr. Chairman.

Chairman GIBBONS. Let me ask you, before I go to Mr. Richardson, why do you think Central and South America went sideways and dropped during the last 10 years as far as individual personal consumption was concerned?

Mr. ROGERS. I think it was a combination of the internal rigidities of their economies, Mr. Chairman, and external changes beyond their control. As you know, Latin America 10, 15 years ago was in the grip of highly protectionist theory, which said that the State should run things, should occupy the commanding heights. (*a*) Everything was left to the State, over-regulated, over-bureaucratized. (*b*) The economies of that region borrowed very heavily just before we went through our inflation wringing-out process in the late 1970's and early 1980's when interest rates went up through the roof, as you will recall, and so they found themselves stuck with enormous debt servicing at the very time that the economies of the developed countries to which they were exporting were in a decline.

So it was a combination of internal rigidity and bad economic policy combined with a series of developments externally that caught them flatfooted. The consequence was that they had to go through an economic revolution in the 1980's to turn the economies of the nations, led by Mexico, upside down, and wring out that debt, in order to get back on their feet.

Now they have an opportunity. But the decade of the 1990's has to be a decade of recovery for Latin America. It is our hemisphere.

Chairman GIBBONS. Do you see in our hemisphere, so to speak, a movement toward freeing up their economies so that they will become more efficient?

Mr. ROGERS. Yes. I say again that I think the revolution that is in process in Latin America is as profound as the revolution that has occurred in Eastern Europe. If you look at Mexico, it is further down the road than Brazil and Argentina, but no further down the road than Venezuela or Bolivia or Chile. Those are countries which have turned their economies on their head. They have turned inward-directed economies into outward-oriented economies. And the private sector has responded.

When Mexico began its reform, the expectation was that the private sector would go down in flames, that there would be, as Mexicans have put it, cadavers all over the place. The fact of the matter is that the Mexican private sector has responded to the new opportunities. They are now export-oriented; they are now competitive; and they are prepared to stand the gaff of international competition in the marketplaces. I think it has been a remarkable revolution, and I think we need to take advantage of it.

Chairman GIBBONS. Bill.

Mr. RICHARDSON. Thank you, Mr. Chairman. Secretary Rogers, it is good to see you.

Mr. Chairman, one of the first jobs I ever held was working for Bill Rogers, and I am personally very pleased that he is here. Given that familiarity, I am going to ask him I hope what he doesn't consider is a rough question. But some of us have suggested, Mr. Secretary, that on the U.S. side, despite the fact that we have some very capable negotiators at SDR and the State Department and Treasury, that the United States should appoint a high level distinguished person to be the main negotiator for these United States-Mexico talks, specifically for the reasons that this treaty, this free-trade agreement will face opposition in the Congress from labor, from other very important groups. Again, this is not to denigrate the quality of negotiators we have, but, again, there is that thought that this needs to be elevated consistent with the importance of the United States-Mexico relationship to somebody with broad international experience, somebody who has served in two administrations, Democrat and Republican—in other words, somebody like yourself, Mr. Rogers.

What do you think of that idea? And I am not proposing you. I am just throwing it out. It is something that some of us feel needs to be seriously considered.

Mr. ROGERS. I think it is absolutely right. I couldn't agree more. I think we need that not only, (*a*) to ensure that the negotiations are as productive as they possibly can be—this is a highly complex series of issues that are going to have to be on the table—to have the negotiations as productive as they can be with respect to those complex issues; (*b*) to enhance the political acceptability and understandability of the proposal when it comes back to Washington, the executive branch and legislative branch, for approval; and (*c*) to give it clout in Mexico. The political process is not limited to the United States. There is going to be a good deal of haggling in Mexico as well to do this thing right. And I think to have a distinguished figure representing the American interest in the negotiation would be a highly desirable step forward. Yes, I couldn't agree more.

Mr. RICHARDSON. Mr. Secretary, at the last hearing, several of my colleagues took issue with a statement I made, and that was that the U.S. free-trade agreement with Mexico, the trade relationship, the economic relationship relating to that treaty should be on one track, and other issues such as narcotics and immigration and environmental issues, the knotty issues that have afflicted the relationship, be put on separate tracks, not exercising linkage between them for fear of complicating what is an important dimension of the relationship—that is, the economic free-trade side.

As you know, our relationship always gets sidetracked by differences over drug allegations, Central America. Now we have something very positive—the free-trade agreement—and that we should keep it on that track. And I wondered if you had any thoughts on that, having been at State and had experience on these issues.

Mr. **Rogers**. I think it would be a great mistake to expand the agenda of the bilateral free-trade agreement negotiations to include drugs and undocumented alien movement. I think those are profoundly important issues and need to be dealt with at a serious diplomatic level, but I don't think they ought to be part of this economic negotiation.

Mr. **Richardson**. Thank you.

Mr. Chairman, thank you very much.

Mr. **Guarini**. Mr. Chairman, may I?

Chairman **Gibbons**. Sure.

Mr. **Guarini**. I noticed in reading your statement that you did address the concern of the rest of Latin America. I am asking you how you would advise this committee to go about the matter procedurally. Would you suggest that we first negotiate a free-trade agreement with Mexico and then use that as a model and a base to bring in other countries on a bilateral basis? Or do you think that we should undertake any multilateral type of negotiating?

Mr. **Rogers**. I would not phase it sequentially, Congressman. I think the President is right to say to all the Latin America countries that we are open to discussions right now with respect to either framework agreements for sectoral trade-liberalizing measures or general free-trade agreements.

The Mexican proposal, and all the others, if they eventuate, are going to take a long time. I do not think it would be wise to postpone consideration of trade-liberalizing measures with the other Latin American countries until such time as we have a completed Mexican agreement.

Mr. **Guarini**. Would you insist in negotiating with Mexico as well as the other South American countries, linkage with their being cooperative in regard to the drug program and the immigration program and problems that we have? Or would you look at this strictly as an economic issue?

Mr. **Rogers**. The latter, clearly. I think that if the negotiators say we are going to be prepared to make trade concessions only in exchange for your concessions on drugs, then I think you have muddied the waters terribly.

They have moved a long way on drugs. I am not saying that it is a problem-free relationship, yet, but I don't think that the best way to get, if you will, cooperation from Mexico and the other countries of Latin America on drugs is to offer them trade concessions or other economic measures which are in our self-interest.

Mr. **Guarini**. Knowing the overwhelming amount of drugs that get in our country from some South American countries, Mexico, as well as Bolivia and Colombia and Peru, it seems inconceivable to me that we would not try to resolve one of our most pressing national priorities when we have an opportunity to when we are at the table. Certainly there could be different kinds of quid pro quo's, and immigration and drugs are very major issues that are bothering us here in America.

Mr. **Rogers**. Well, I think that is right. But I think my view is that I wouldn't make them ostensible tradeoffs, open tradeoffs. Obviously, as the relationship improves—as it has in the last 5 years—between the United States and Mexico, there is going to be a greater willingness to cooperate and work together in the drug area. But to charge the chief negotiator that Mr. Richardson has suggested with the responsibility for negotiating a deal with Mexico on trade-liberalizing measures, investment-opening measures, banking and trucking services in Mexico, intellectual property and so forth, and also with persuading the Mexican negotiator at the opposite side of the table to commit his Government to major increased surveillance on drug traffic I think would be to overload that circuit.

Mr. GUARINI. Thank you very much, sir.

Chairman GIBBONS. Mr. Guarini, I haven't made up my mind on what I am going to do on this issue. I deplore drugs like you do, but I am always wondering when those South American countries whose illicit drug traffic is being financed by the United States are going to ask us to cut off the financing. That is what is driving this war. If we didn't supply the drug manufacturers with so much money, I would imagine those South American countries would have a lot more chance to control that revolution that is going on down there. That is what worries me.

This is not a one-sided war, and we are the ones that are financing the drug rebels, if you want to call them that, the drug outlaws. And I think there has to be a growing awareness of that in this country. As long as we are willing to allow our people to finance that war down there, there isn't any way we can win it because we are just fighting ourselves. And if we win it down there, they will switch it to the chemistry shop, and that is coming fast, as I see the problem.

Mr. GUARINI. Well, I recognize the fact—and there is a lot of truth in what you say—that we contribute to exacerbate the problem. And when we go through on drug missions to South America, they tell us that if you weren't buying the drugs, we wouldn't be growing them. And I understand our contributory part.

Nonetheless, we do have laws on our books that say that if they do not cooperate with us in regard to the drug problem that we have in our country, it will have an effect on trade, that it will have an effect on foreign assistance, that it will have an effect on our World Bank and different intergovernmental bank loans, et cetera. So that is already part of the body of our law that was passed by Congress and signed by the President of the United States. So I would assume that if we are sitting at the table, we should be mindful that this is how the American people and Government feel about these particular issues.

Chairman GIBBONS. Well, I agree. I agree they feel that way about that, but that doesn't mean they made the right decision. I think the right decision in this country is not only to be aggressive on that front, but to be aggressive on cutting out the financing of the drug trade.

You know, we are the bankers. We are the people—we are the consumers. That is where the problem, the insolvable problem, lies. We can clobber those people over the head for the rest of our lives, and we are never going to solve it as long as we are willing to finance the thing.

Mr. GUARINI. But conceding everything you say, Mr. Chairman, we still look at trade and foreign assistance and World Bank loans with a view as to how cooperative they have been, and it is so certified by the President of the United States concerning the drug program.

Chairman GIBBONS. I don't have any objection to that. I am just pointing out that that will work fine up to a point, but it will never succeed. What I want to do is win this war, and we have got to quit financing the thing.

Mr. Rogers, we thank you, and we thank you for your fine and wonderful career of public service.

Mr. ROGERS. Thank you, Mr. Chairman. It is a pleasure.

Chairman GIBBONS. Staff tells me we have a little change in the batting order in the next panel, so let me call it out as it will be: The American Federation of Labor and Congress of Industrial Organizations, Mark Anderson; second will be the International Union of United Automobile, Aerospace & Agricultural Implement Workers of America, Steve Beckman; and, third, the Amalgamated Clothing and Textile Workers Union, Arthur Gundersheim.

Mr. Anderson, you and the rest of your colleagues may proceed as you wish. Go right ahead.

STATEMENT OF MARK A. ANDERSON, INTERNATIONAL ECONOMIST, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. ANDERSON. Thank you very much, Mr. Chairman.

Mr. Chairman, we certainly appreciate the opportunity to present our views on United States-Mexico economic relations, and more specifically on the possibility of the negotiation of a free-trade agreement between the two countries. The AFL-CIO views the prospect of such an agreement with considerable alarm. Under current trade arrangements, tens of thousands of American workers have lost their jobs, and tens of thousands more have seen employment opportunities vanish as U.S. companies transferred production to Mexico to take advantage of the poverty of Mexican workers and the absence of effective regulations on corporate behavior. A free-trade agreement will only encourage greater capital outflows from the United States, bring about an increase in imports from Mexico, and further harm the U.S. industrial base.

Some supporters of this negotiation have characterized it as a natural extension of the United States-Canada Free-Trade Agreement. Others have said negotiations are a necessary step in order to balance actions being taken in Europe to form a single market. For the AFL-CIO, neither of these activities provide an appropriate rationale for the negotiation of a United States-Mexico free-trade agreement.

As the committee knows, the AFL-CIO opposed the United States-Canada Free-Trade Agreement. We were and still are concerned that this agreement inhibits U.S. governmental activity to address economic and social problems in the United States, while at the same time approving a significant disparity in the way the two Governments deal with economic issues. That being said, Canada at least has wage levels, living standards, and regulatory structures similar, if not superior, to the United States. A free-trade agreement with Mexico, a country where wages and social protections are almost nonexistent when compared to our own, simply invites disaster for American workers.

Neither can movement toward a single market in Europe be used as a model for a North American or United States-Mexico free-trade area. There, a crucial aspect of the negotiations is the development of a social dimension to the internal market. The freeing up of capital movements and the liberalization of trade in goods is taking place side by side with efforts to set minimum workplace standards and benefits, as well as common regulatory regimes.

As currently described, the United States negotiations with Mexico will deal exclusively with the former and ignore the latter.

Imports, Mr. Chairman, from Mexico have grown rapidly during the last decade, spurred largely by the growth of the maquiladora industry, which is now made up of some 1,700 plants employing some 450,000 workers producing goods destined almost solely for the U.S. market. A free-trade agreement will eliminate what little regulation exists today, and greatly expand low-wage production in Mexico dedicated for export to the United States.

Naturally, there are some who would benefit. The profits of U.S. companies are increased, and I imagine a narrow group of managerial and political elites in Mexico are advantaged. U.S. financial interests also have a major stake in this export-oriented activity since export earnings are used to pay interest on Mexico's crushing debt burden.

Any benefit derived to U.S. workers who lose their jobs as production is transferred, or Mexican workers who are being paid barely subsistence wages, is more difficult to discern.

The reality of Mexican wage levels is sadly demonstrated by a pay stub attached to my statement from a worker at a Zenith plant in the Mexican city of Reynosa. For a 48-hour week, this worker, who is engaged in the manufacture of television and other electronic components, netted 71,700 pesos which, at the time, February of this year, translated into the sum of $26.16. Gross pay amounted to a mere 61 cents an hour. According to studies done in Mexico, this is considerably below the level of compensation needed to maintain a subsistence level of existence.

Beyond the question of wage differentials, the vast differences in regulatory structures and social protections cannot help but create serious difficulties for U.S. production. In one sense, the establishment of the United States-Mexico free-trade area would be, in commercial terms, no different than if one drew a circle around the city of Chicago and said, for example, that inside that circle U.S. minimum wage and child labor laws would not apply; occupational health and safety regulations need not be observed; worker's compensation and unemployment insurance need not be paid, and environmental protection laws could be ignored.

All these standards, and others like them, impose costs on U.S. producers. We, as a nation, have decided that these costs are necessary to improve the standard of living of all our citizens. In Mexico, there are no such costs to be borne.

The impact of this different regulatory structure was highlighted in a May 14, 1990, Los Angeles Times article on the southern California furniture industry. You may recall Ambassador Hills in her testimony before this committee on June 14, cited the U.S. furniture industry as one sector that would benefit from greater access to the Mexican market.

According to the L.A. Times, furnituremakers have been leaving southern California, and setting up production down the road in Tijuana in order to escape tough environmental rules imposed in 1988 concerning the use of solvent-based paints, stains, and lacquers. By moving, they also avoid paying California's workers' compensation premiums.

The tragic irony of this is obvious. The pollution that California sought to eliminate remains. It merely originates a few miles across the borders. Workers in the United States have lost their jobs, and Mexican workers are endangered by the absence of effective health and safety regulations.

On a larger scale, the Clean Air Act that is currently being considered by Congress would also impose wide ranging costs on domestic producers, and may generate even more transfers of production to Mexico.

The solution here, in our view, is not to lessen the effort to reduce pollution, but to recognize that such efforts may produce related problems that must be addressed.

Also attached to my statement, Mr. Chairman, is a report prepared by the AFL-CIO that provides more details on this issue.

Mr. Chairman, in conclusion, the AFL-CIO believes that the huge differences that presently exist between the United States and Mexico make the establishment of a free-trade area both damaging to U.S. workers and of little benefit to Mexican workers.

The problems of poverty and economic development in both the United States and Mexico are too serious to be left to the interests of private capital. Significant debt relief, foreign aid, development planning, efforts to raise wages and living standards of Mexicans, as well as efforts to prevent the current environmental pollution being created along the border are all elements that must be dealt with on a governmental level, and cannot be addressed by simple reliance on free trade.

Thank you, Mr. Chairman.

[The prepared statement and attachments follow:]

90-22

STATEMENT OF MARK A. ANDERSON, INT'L ECONOMIST AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ON U.S.-MEXICO ECONOMIC RELATIONS

JUNE 28, 1990

Mr. Chairman, members of the Committee, the AFL-CIO welcomes this opportunity to present its views on United States-Mexico economic relations. This hearing is particularly timely, in light of the announcement made earlier this month by Presidents Bush and Salinas, that preparatory work would begin toward the goal of reaching a bilateral free trade agreement between the two countries.

The AFL-CIO views the prospect of such an agreement with considerable alarm. Under current trade arrangements, tens of thousands of American workers have lost their jobs and tens of thousands more have seen employment opportunities vanish, as U.S. companies transferred production to Mexico to take advantage of the poverty of Mexican workers, and the absence of any effective regulations on corporate behavior. A free trade agreement will only encourage greater capital outflows from the U.S., bring about an increase in imports from Mexico and further harm the U.S. industrial base. Attached to my testimony, is a statement adopted by the Executive Council of the AFL-CIO expressing opposition to free trade talks with Mexico.

Some supporters of this negotiation have characterized it as a natural extension of the U.S.-Canada Free Trade Agreement. Others have said negotiations are a necessary step in order to balance actions being taken in Europe to form a single market. For the AFL-CIO, neither of these activities provide an appropriate rationale for the negotiation of a U.S.-Mexico Free Trade Agreement.

As the Committee knows, the AFL-CIO opposed the U.S.-Canada Free Trade Agreement. We were, and still are concerned, that this agreement inhibits U.S. governmental efforts to address economic and social problems in the U.S., while at the same time approving a significant disparity in the way the two governments involve themselves in economic development. That being said, Canada, at least, has wage levels, living standards, and regulatory structures similar, if not superior, to the U.S. A free trade agreement with Mexico, a country where wages and social protections are almost nonexistent when compared to our own, simply invites disaster for U.S. workers.

Neither can movement toward a single market in Europe be used as a model for a North American, or U.S.-Mexico free trade area. There, a crucial aspect of the talks is the development of a social dimension to the internal market. The freeing up of capital movements, and the liberalization of trade in goods is taking place side by side with efforts to set minimum workplace standards and benefits, as well as common regulatory regimes. As currently described, U.S. negotiations with Mexico will deal exclusively with the former, and ignore the latter.

Trade between the U.S. and Mexico has grown rapidly during the last decade. Imports from Mexico have more than doubled, reaching a peak of $27.2 billion in 1989. A major stimulus to this increase in imports has been the tremendous growth of the in-bond or Maquiladora program, which encourages the cross-border sharing of production. This program effectively suspends Mexican import duties on production related machinery as well as components incorporated into exports, and U.S. duties on the U.S. content of imported products. Its size has mushroomed from 120, plants employing about 19,000 workers in Mexico 20 years ago, to some 1700 plants employing about 450,000 workers today. A free trade agreement will eliminate what little regulation exists now, and greatly expand low wage production in Mexico dedicated to exporting to the U.S.

The AFL-CIO believes that this type of activity will do little to help solve America's trade problems. Indeed, it only makes that problem larger. At the same time, it does little, if anything, to improve the lives of the vast majority of Mexican citizens.

This is not to say that no one benefits from this program. Certainly, the profits of U.S. companies are increased, and I imagine a narrow group of managerial and political elites in Mexico are advantaged. U.S. financial interests also have a major stake in this export oriented activity since export earnings are used to pay interest on Mexico's crushing debt burden.

Any benefit derived by U.S. workers who lose their jobs as production is transferred, or Mexican workers who are being paid barely substance wages, is more difficult to discern.

Concerning U.S. workers, there has been considerable discussion and debate over the domestic employment effect of this program. A debate, that has been clouded through the use of supposedly sophisticated economic studies, and models, which tend to downplay any negative employment effects. Such analysis merely serves to camouflage the obvious. The one thing we do know is that there are 450,000 workers producing goods destined almost solely for this market. If our market was being serviced by domestic production, even taking productivity differences into account, employment would clearly be hundreds of thousands higher.

Secondly, it has been asserted that production sharing encourages exports, and therefore, improves the U.S. trade position. This is again false, in that for all intent and purpose there are no real exports here. By definition the U.S. content is returned.

Thirdly, the argument that production sharing is necessary in order for a company to become more competitive, is merely an attempt to justify what may be a company's easiest solution to competitive problems, but one that is not beneficial for the U.S. economy and American workers.

Indeed, the operation of this program turns the traditional concept of international trade on its head. Here, an industry's competitiveness, or a nation's comparative advantage is not determined on the basis of the cost .or quality of a completed product. Rather, comparisons can now be made for each stage of the production process in deciding on foreign or domestic sourcing. The historic strength of the U.S. economy has been based on a variety of factors including a highly educated, productive and well-paid workforce, ample capital and natural resources, innovative production techniques, strong managerial skills, and continued technological advances. Together, these elements have led to the high standard of living enjoyed by so many Americans. This wealth, however, and its continued growth requires high income levels. Mexico's in-bond program, together with U.S. government incentives, not to mention totally free trade, permit a company to separate decent and justified wage levels from all other aspects of production. Mexico's single comparative advantage is the poverty of its citizens and their willingness to work for subsistence wages. The skill, productivity and contributions of American workers become irrelevant in this context, and the growth of this activity threatens one of the essential pillars of the

American economy. No matter how productive, U.S. workers cannot compete with labor costs of less than $1.00 an hour.

The huge differential in wages, is sadly demonstrated by a pay stub (attached) from a worker at a Zenith plant in the Mexican city of Reynosa. For a 48 hour week, this worker, who is engaged in the manufacture of television and other electronic components, netted 71,700 pesos, which at the time, February of this year, translated into the sum of $26.16. Gross pay amounted to a mere $.61 an hour. According to studies done in Mexico, this is considerably below levels of compensation needed to maintain a subsistence level of existence.

A few years ago, when Mexican wages were actually higher in dollar terms than they are today, the Twin Plant News, a magazine supportive of industry, published an article on the subject of wages stating:

"There are ways to keep the minimum wage people at minimum wage."

The article suggested "free or subsidized lunches" and assistance with transportation costs. It also asked "how about a free kilo of tortillas each week or a few kilos of frijoles."

It went on to suggest that the employees of the U.S. parent corporation could "clean out their closets of those items they'll never get to again" and send them to the Mexican plant for distribution "where it will do the most good." Remember, "many of the houses (on the Mexican side of the border) are poorly heated, if heated at all, and warm clothing and blankets feel good on those cold nights." It strains credulity to believe that development in Mexico is assisted when people working 48 hours a week need handouts of food and clothing in order to survive.

Beyond the question of wage differentials, the vast differences in regulatory structures and social protections cannot help but create serious difficulties for U.S. production. In one sense, the establishment of a U.S.-Mexico free trade area would be, in commercial terms, no different than if one drew a circle around the city of Chicago and said, for example, that inside that circle U.S. minimum wage or child labor laws wouldn't apply, occupational health and safety regulations need not be observed, workers compensation and unemployment insurance need not be paid, and environmental protection laws could be ignored. All these standards and others like them impose costs on U.S. producers. We as a nation, however, have decided those costs are necessary to improve the standard of living of all our citizens. In Mexico, there are no such costs to be borne.

Noting this problem, one article, in a series on the Maquiladora industry published by the Arizona Republic last year, cited a Tucson based consulting company that sends prospective clients a flier stating that one of the advantages of doing business in Mexico is "minimal government regulator controls, i.e., no OSHA, EPA, EEOC, AAP, Air Quality Control, etc." This newspaper series also cataloged a variety of problems confronting workers in the Maquiladora industry including the employment of a 13-year old girl in Nogales by General Electric on the 4:30 PM - 1:30 AM shift making electric wiring strips, the mishandling of toxic materials used in production processes, and the resulting pollution problems, and the growing use of used chemical drums by workers to hold drinking water.

The impact of different regulatory structures was also highlighted in a May 14, 1990, Los Angeles Times article on the Southern California furniture industry. Ambassador Carla Hills in testimony before this Committee on June 14, cited the U.S. furniture industry as one sector that would benefit from greater access to the Mexican market. According to the L.A. Times, furniture makers have been leaving Southern California and setting up production down the road in Tijuana, in order to escape tough environmental rules imposed in 1988, concerning the use of solvent-based paints, stains, and lacquers. By moving they also avoid paying California's workers' compensation insurance premiums, which, because of the hazards of woodworking, cost employers a basic rate of 19 cents on each $1.00 paid out in gross wages.

The tragic irony of this is obvious. The pollution that California sought to eliminate remains. It merely originates a few miles away, across the border. Workers in the U.S. have lost their jobs, and Mexican workers are endangered by the absence of effective health and safety regulations.

On a larger scale, the Federal Clean Air Act that is currently being considered by Congress will also impose more wide-ranging costs on domestic producers, and may generate even more transfers of production to Mexico. The solution is not to lessen the effort to reduce pollution, but to recognize that such efforts may produce related problems that must be addressed. Attached to my statement is a report prepared for the AFL-CIO that provides more details on pollution problems in Mexico including the pollution of drinking water supplies and irrigation waters, the indiscriminate dumping of waste in land dumps, the threat of toxic poisoning by industrial accidents and unsafe transport, and the abuse of health and safety protections for Mexican workers.

Mr. Chairman, the AFL-CIO believes that the huge differences that presently exist between the U.S. and Mexico make the establishment of a free trade area both damaging to U.S. workers and of little benefit to Mexican workers. It would only serve to perpetuate a division of labor that separates the people of the two nations into low cost producers on the one hand and consumers on the other. In order to prosper, people need to both work and consume, and U.S. efforts should be directed to that end.

The problems of poverty and economic development in both the U.S. and Mexico are too serious to be left to the interests of private capital. Significant debt relief, foreign aid, development planning, efforts to raise the wages and living standards of Mexicans, as well as efforts to prevent the current environmental pollution being created along the border, are all elements that must be dealt with on a governmental level. This is particularly true with respect to those American-owned manufacturing plants--the maquiladoras--in which exploited Mexican workers produce goods for the U.S. market. Governments on both sides of the border must work together to find solutions to these difficulties. A free trade agreement is, by definition, a rejection of any governmental role.

Attachments

Statement by the AFL-CIO Executive Council

on

U.S.-Mexico Free Trade Agreement

May 24, 1990
Washington, DC

Earlier this year, the U.S. and Mexico began discussions over the possibility of negotiating the establishment of a free trade agreement. This month, the Mexican Senate approved a report, formally recommending the negotiation of such an agreement.

U.S. trade and investment with Mexico has already significantly harmed the domestic manufacturing sector. Tens of thousands of American workers have lost their jobs, or seen employment opportunities vanish, as U.S. companies move to take advantage of the poverty of Mexican workers, and the absence of any effective regulations on company operations.

Over 400,000 Mexican workers are now employed at wages under one dollar an hour producing goods destined almost entirely for the U.S. market. A free trade agreement will only encourage greater capital outflows from the U.S., and bring about an increase in imports from Mexico further harming the U.S. industrial base. It will also do little to improve the lives of Mexican workers because their low wages must be maintained to attract continued U.S. investment in Mexico.

Such an agreement also has the potential of distorting U.S. immigration policy since the Mexican government is apparently insisting that a free trade agreement include provisions guaranteeing additional large numbers of Mexican workers the opportunity to work in the United States.

The problems of poverty and economic development in both the U.S. and Mexico are too serious to be left to the interests of private capital. Foreign aid, development planning, efforts to raise the wages and living standards of Mexicans and efforts to prevent the current environmental pollution being created along the border, are all elements that must be dealt with on a governmental level. This is particularly true with respect to those American-owned manufacturing plants--the maquiladoras--in which exploited Mexican workers produce goods for the U.S. market. Governments on both sides of the border must work together to find solutions to these difficulties. A free trade agreement is, by definition, a rejection of any governmental role.

The AFL-CIO urges the President and the Congress to reject any negotiations that could lead to a free trade agreement with Mexico.

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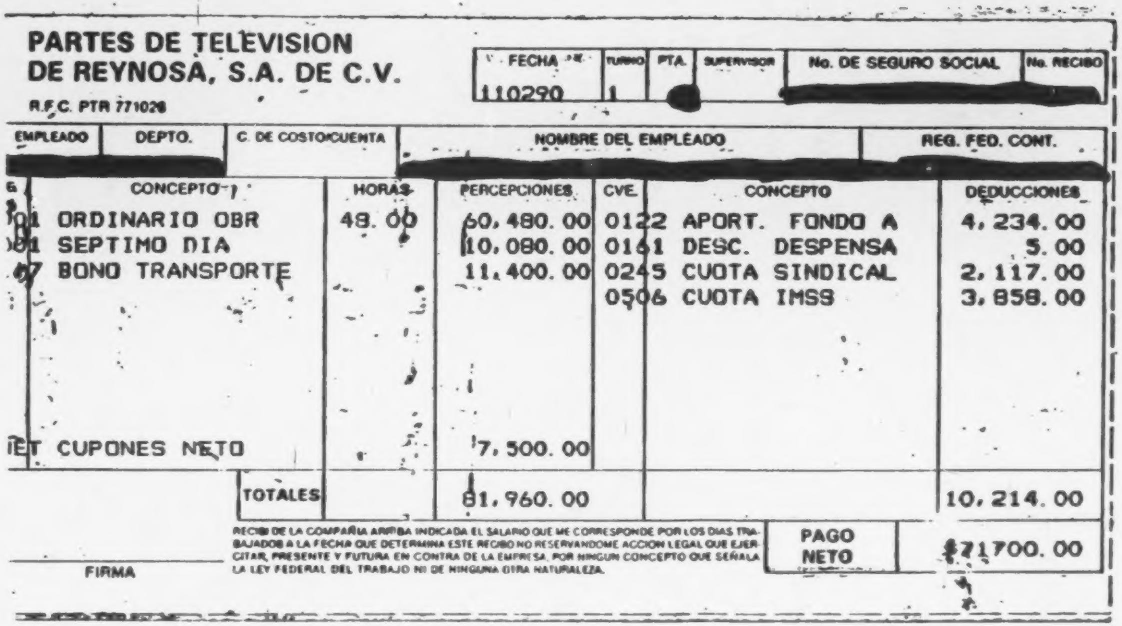

PARTES DE TELEVISION DE REYNOSA, S.A. DE C.V.

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ORDINARIO OBR	48.00	60,480.00	0122	APORT. FONDO A	4,234.00
SEPTIMO DIA		10,080.00	0161	DESC. DESPENSA	5.00
BONO TRANSPORTE		11,400.00	0245	CUOTA SINDICAL	2,117.00
			0506	CUOTA IMSS	3,858.00
ET CUPONES NETO		7,500.00			
TOTALES		81,960.00			10,214.00
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RECIBI DE LA COMPAÑIA ARRIBA INDICADA EL SALARIO QUE ME CORRESPONDE POR LOS DIAS TRABAJADOS A LA FECHA QUE DETERMINA ESTE RECIBO NO RESERVANDOME ACCION LEGAL QUE EJERCITAR, PRESENTE Y FUTURA EN CONTRA DE LA EMPRESA, POR NINGUN CONCEPTO QUE SEÑALA LA LEY FEDERAL DEL TRABAJO NI DE NINGUNA OTRA NATURALEZA.

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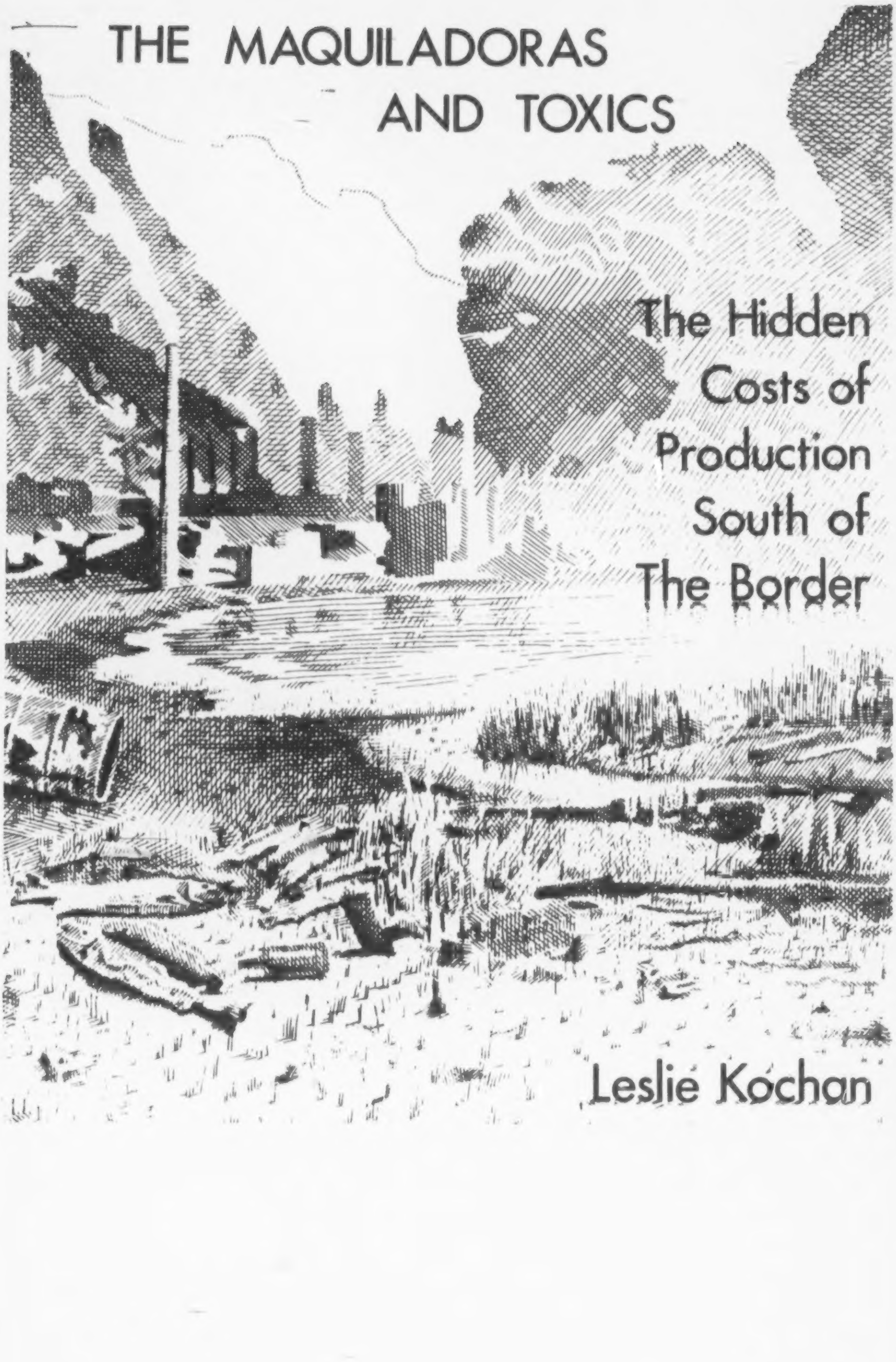

The Hidden Costs of Production South of The Border

Leslie Kochan

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Maquiladoras: The Hidden Cost of Production South of the Border

Introduction

For more than two decades, the flight of American-owned assembly operations to the "maquiladoras" just across the Rio Grande has wreaked havoc among workers in both the United States and Mexico.

For American workers, the maquiladoras mean the loss of hundreds of thousands of jobs as giant corporations—aided and abetted by the U.S. government—have shut up shop in this country and moved to Mexico in search of an easily exploitable workforce.

For Mexican workers, most of whom are women and young girls, the maquiladoras mean meager wages of as little as $2.90 a day, soaring consumer prices, working conditions that resemble the sweatshops of the late 19th and early 20th century, and a woeful lack of an adequate infrastructure (housing, sewage systems, water supplies, roads and bridges.)

Now evidence is mounting that the maquiladoras pose a potentially more serious menace to those living on both sides of the border—the ecological hazard caused by these plants as they release toxic wastes into the air, the water and the land.

Here are the dimensions of the problem:

- Drinking water supplies and irrigation waters are being polluted and fish and wildlife face extinction.
- The fragile ecosystem is endangered by indiscriminate dumping of waste in land dumps.
- The region lives under the threat of toxic poisoning caused by transportation or industrial accidents.
- Adequate waste treatment facilities are lacking on both sides of the border.
- Mexican workers are frequently denied basic health and safety protections against occupational illness or disease, and they risk the loss of their jobs if they protest these dangerous conditions.
- The cost of cleaning up industrial and bacterial contaminants is skyrocketing, as is the price tag for building roads and bridges to supplement those damaged and overloaded by hazardous materials haulers.

This report analyzes the silent compact between many corporations and the Mexican government, which amounts to a waiver of responsibility for the safe use of toxics in the workplace, and for their careful transportation and disposal. It points up the grave health, ecological, social and economic problems that have arisen because of the unchecked growth of the maquiladoras.

The report was compiled from interviews and research done by Leslie Kochan of the Oregon Dept. of Environmental Quality. The subjects of her interviews are listed as sources on the inside back cover and referred to in the text. Kochan, who has an MS in Environmental Policy from Tufts, has worked on hazardous waste issues for the Texas Center for Policy Study.

I. U.S. and Mexican Environmental Protection and Health and Safety Laws

The Flight from United States Regulation

One of the big attractions that the maquiladoras hold for American industry is the Mexican government's hands-off attitude toward environmental protection and worker health and safety laws.

The Texas Economic Commission has used this argument to promote the flight of U.S. firms to the maquiladoras. It points out that in Mexico: "Governmental control is minimal; for example, there are no stiff prohibitions such as in the United States with respect to air quality, etc." While it is obviously difficult to document that American firms have specifically moved to Mexico to evade more stringent regulations in the United States, the following experience by Kast Metal Workers bears witness to the allure of an unregulated environment.

For years, Kast Metals, Inc., of Keokuk, Iowa, fought against Occupational Safety and Health Administration (OSHA) inspections. In 1982, the Iowa State Bureau of Labor won a lawsuit that got the state OSHA agency into the plant. In 1987, Kast Metals was fined $2,000 for "serious violations" centering on improper containment of certain toxic gases. It has now closed its Keokuk plant and moved to Carmago, Mexico. (Longoria, 1987).

Enforcement, not legislation, is the problem.

Although Mexico's environmental and worker health laws have been extremely weak, the government is now drafting new and tougher regulations. The concern, however, remains enforcement.

The two countries have differences in policy and enforcement.

The Political Realities

U.S. environmental and worker health and safety laws set admirable goals. But the Reagan Administration tried to destroy these safeguards by:

- Slashing funds for OSHA and the Environmental Protection Agency.
- Proposing to suspend regulations requiring industries to treat sewage before dumping it into municipal systems.
- Supporting efforts to end federal control of toxic wastes.
- Placing anti-environmentalists in key positions.

The Reagan Administration crippled many important programs, but could not destroy them. Unions, environmentalists and citizen groups convinced Congress and the courts to lessen the damage.

Now, Mexico is putting together new regulations on pollution and worker exposures. But it lacks the economic resources to do an adequate job. And it doesn't have strong environmental or community groups to put pressure on the government.

According to a 1986 United States Department of Commerce report issued by the U.S. Embassy in Mexico, Mexican environmental groups have been able "to point to a few successes in influencing" government policy, but are hampered by an inability to "obtain credible scientific data and by the lack of local government or legislative institutions with which the groups can influence policy."

Ron Nye, a longtime environmental and conservation activist in Mexico, sums it up this way: "The problem isn't going to be legislation or regulation, but rather enforcement—and enforcement will require citizen and worker representation."

Mexico's Environmental Laws

The Federal Environmental Protection Law of 1982 marked the beginning of Mexico's efforts to do something about the problem. But four years later, the government still hadn't set standards for discharges into water and air, or for disposal and treatment of hazardous materials.

By 1986, standards were being prepared for solid waste disposal and for a limited number of air emissions. But only a few industries—like the national oil company and some copper smelters—had monitoring systems to detect violations of environmental standards.

In 1987, the Mexican Hazardous Waste Decree developed the first brief list of "hazardous materials," but didn't regulate waste storage sites.

The General Law on Ecological Equilibrium and Environmental Protection was adopted in 1988. A series of "ecological technical standards" were subsequently issued. They covered air pollution from gasoline vehicles, cement industry ovens and sulphuric acid production, and water pollution from asbestos, copper, synthetic rubber, glass and flour production.

But the 1986 Embassy report stressed that "the development of technical, financial and human resources to make the enforcement of current and future regulations widespread and predictable is difficult to forsee given the current economic and budgetary situation in Mexico."

Control of Toxic Chemicals

In the United States, the 1976 Toxic Substances Control Act regulates the evaluation and registration of raw industrial chemicals. It provides that chemical manufacture, import and disposal may be restricted and banned. New chemicals entering the U.S. market are subject to notification requirements. A more rigorous registration on the testing process is required under the Federal Insecticide, Fungicide and Rodenticide Act.

Exports of hazardous substances must be reported to EPA, which in turn is supposed to notify Mexico if these materials are going into that country. But the process is slow, and according to Border Ecology Project researchers, dangerous substances could be far into Mexico and already into production and use before local authorities on either side of the border are aware of the shipment. (Kamp and Gregory, 1988).

Transporting and Disposing of Hazardous Materials

The 1976 Resource Conservation and Recovery Act (RCRA) set up a system to identify waste and track its generation, transport and disposal in the U.S. It also includes standards for disposal sites and state programs to regulate hazardous waste.

The law mandates registration for hazardous waste transporters and disposal sites. It requires a system of manifests to track waste from its source of production to its final disposal or destruction, certification that the waste is properly labeled and packaged, and certification that treatment, storage and disposal are adequate to minimize present and future health and environmental threats.

Mexico has a similar manifest system, but few government employees are available to provide information on laws and to oversee inspections and enforcement. It is administered by the Secretary of Urban Development and Ecology (SEDUE). Charlie Webster, a Texas Water Commission (TWC) employee in Westlaco reported that there is only one inspector in Tamaulipas and one or two in Chihuahua to enforce all of SEDUE's environmental laws. Bill Lockey, TWC district manager in the El Paso/Odessa area knows of only one SEDUE employee in Westlaco, reported that there is only one inspector in Tamaulipas and one or two in

In the United States, firms which keep waste on their property more than 90 days must obtain waste storage facility permits. Mexico has no limit on how long waste can be stored.

The 1976 U.S. law spells out the manner of waste treatment and disposal, provides for monitoring of disposal sites, and contains stringent penalties and enforcement mechanisms. Major 1984 amendments expanded waste management requirements, banned land disposal of liquid wastes, regulated underground storage tanks, and extended coverage to small firms generating hazardous waste.

While U.S. landfill regulations are no guarantee of safe disposal, Mexican hazardous waste landfills are likely to be worse. The first Mexican toxic waste sites were opened in 1981—16 years after the start of the maquiladora program. These sites don't come up to U.S. standards and their capacity is inadequate to even meet the needs of Mexican-owned industries before the growth of maquiladora waste.

Mexican toxic sites were inadequate before the growth of Maquiladora waste.

One researcher estimates that 20 million tons of waste are generated each year, and that another 100 million tons of accumulated waste are improperly stored. (Ortiz-Monasterio, 1987). Reports on the number of licensed sites vary widely. While experts disagree on the number, they generally agree that capacity is grossly inadequate for properly handling the waste generated by Mexican companies. Indications are that until last year there were only two. Robert Sanchez, Director of the Colegio Fronteria de Norte, states there are now six small-sized, Mexican-operated hazardous waste disposal sites. Another expert says there are three sites licensed for all waste disposal and another 12 with limited uses. (Franco, 1988).

Binational Agreements on Transportation and Disposal

Mexican law requires that if raw chemicals or any other hazardous materials are imported for use in the maquiladoras, the toxic waste generated must be returned to the country of origin. Several agreements on transportation and disposal between the United States and Mexico enforce these agreements. One requires notification to, and permission from, the country receiving waste. For example, a U.S.-operated maquiladora must first find an American disposal site willing to accept its waste. Mexico must then ask EPA approval for the disposal. Similarly, U.S. firms operating in this country must get EPA and Mexican approval to ship wastes south of the border for disposal.

Lauren Fondahl of EPA says most U.S. companies know they must get permission to export waste to Mexico. However, many U.S. maquiladoras believe that since the agreements require waste generated by products of American origin be returned to the United States, there is no need for agency notification or permission.

Regulating Chemicals in the Workplace

In the United States, OSHA sets standards to protect the health and safety of workers in the workplace. In 1971, the agency designated some 400 substances as air contaminants and set threshold-limit values for exposure. By 1988, two dozen substances were subjected to tougher standards on exposure limits, labeling, protective equipment, control procedures, monitoring and measuring employee exposure, medical exams, and government access to records of exposure-monitoring activities.

In Mexico, no such standards have yet been set to protect workers from exposure to industrial chemicals in plants, although new regulations are being developed on specific materials. But enforcing such standards will require resources not currently available. In Matamoros, for example, workers were unable to find any agencies in the state of Tamaulipas with instruments to measure air concentrations of chemicals. The equipment eventually had to be brought in from Mexico City.

Workers' Right-to-Know

OSHA's Hazard Communication Standard, or worker "right-to-know," was issued in 1983 and expanded to cover all workplaces in 1987. It mandates that chemical manufacturers and employers provide information about hazardous chemicals through Material Safety Data Sheets (MSDSs) and labels. It also requires that workers be given notification and training on chemicals used in their workplaces.

Mexico has no agency equivalent to OSHA. However, "Mixed Commissions" or labor-management committees are required by the Department of Labor and Social Security under Section 19, Articles 193-212, of the General Law on Health and Safety in the Workplace. According to Rene Franco, an environmental engineer in Juarez who is a health and safety consultant to the maquiladora industry, these commissions have official status and can investigate any concerns regarding safety, lighting, noise, chemical exposure or other unsafe working conditions.

Workers get information by removing labels and sneaking them out.

Franco states that these commissions look at the Mexican equivalent of MSDSs in their evaluation of chemical concerns. If problems are not resolved at the plant level, assistance can be officially requested from the Department of Labor. Franco claims that 95 percent of the industrial audits he conducts each year are the product of good corporate policies rather than agency requirements. While Franco believes maquiladora plants are pushing other Mexican industries to meet U.S. standards, he concedes that the response to the issues of environmental and worker protection varies widely.

Workers and organizers interviewed in Matamoros claim that most companies have resisted setting up labor-management committees and workers generally get information about chemicals they are using by removing labels from containers and sneaking them out of their workplaces. One Texas organizer said that the number of companies setting up committees is growing, but believes this is happening only because workers are organizing, teaching themselves about chemical risks and workplace rights, and obtaining union representation on these issues.

Emergency Response Procedures

The 1986 Superfund Amendments and Reauthorization Act requires establishment in the United States of local emergency response plans for responding to hazardous material accidents and to make information available to the entire community. State Emergency Planning Commissions and Local Emergency Planning Committees (LEPC) must be established to develop and oversee these plans.

Such planning must include:

- Identification of facilities and transportation routes for extremely hazardous substances.
- Emergency response procedures for on-site and off-site accidents.
- Emergency notification procedures.
- Methods for predicting where a release might occur and the areas and population which would be affected.
- An inventory of community and industry emergency equipment and facilities and training for emergency response personnel.
- Evacuation plans.

Mexico and the United States have established joint contingency plans for accidental releases of hazardous substances along the border. Under this arrangement, bordering towns are supposed to develop joint plans for emergency preparedness and response.

The agreement calls on states in both countries to develop measures for reporting polluting incidents, to institute appropriate and timely measures to monitor and restrict the spread of spilled or released contaminents, and to assure that there are adequate means to respond to an incident.

II. Hazardous Waste Disposal Practices

A 1986 survey by El Colegio de la Frontera Norte showed that only 20 out of 772 maquiladora plants along the entire U.S.-Mexican border notified EPA that they were returning waste to the United States. Yet, 86 percent of the surveyed plants use toxic materials. (Juffer, 1988). It is conservatively estimated that plants in Ciudad Juarez alone generate 5,000 tons of waste a year. (Pinkerton, 1988).

Many wastes are undetected when crossing the border in either direction.

Data compiled by the Texas Water Commission reveal that only 11 of 400 maquiladora plants operating along the Texas border reported returning waste to the United States in 1987. A year later, 90 maquiladoras filed such reports.

The Border Ecology Project reported that although substantial amounts of hazardous waste are supposedly being shipped from Agua Prieta plants back to the United States, no reports of such shipments have been recorded at the border.

The San Francisco Chronicle reported that approximately 100 maquiladoras operated in Mexicali in 1986. But records of EPA Region 9 in California show that only two filed notice that they sent hazardous wastes back to the United States that year.

Why the discrepancy between the amount of waste being generated and the amount reported as being returned to the United States for proper disposal?

Inadequate Tracking

Although United States regulations require tracking through manifests, many wastes may cross the border unrecorded in either direction. The two countries have different definitions of waste and their statutes and regulations often are inconsistent.

Roger Chacon the technical vice president of an El Paso waste storage and transportation firm, agrees that some waste is probably being dumped. He believes that inadequate reporting is also part of the problem. Chacon said his company alone transported hazardous waste to United States dump sites for at least 35 companies in 1987. TWC figures, however, showed only 11 companies returning waste during that same year. Chacon reports transporting waste for 80 of an estimated 362 El Paso maquiladoras in 1988, and Emilio

Bruna, owner of IESCO, a consulting and transportation firm for maquiladora operators, reports handling wastes for an additional 30 maquiladoras.

Another problem is with Customs. Hector Villa of the TWC states that Customs in El Paso does not always check for the manifests required from trucks carrying hazardous waste. On June 30, 1988, the TWC stopped all trucks going both ways across the border and found many Mexican waste haulers entering the United States without proper manifests.

Loopholes for Companies Buying Raw Materials in Mexico

Loopholes make it possible for United States-run maquiladoras to buy raw materials in Mexico, without having to return the waste to the United States for disposal. It is not clear what rule applies if a company uses some hazardous materials from both countries and they end up in the same waste stream.

Waste "Donations" to Charities

Mexican law permits the "donation" of hazardous wastes to charitable organizations which then sell them to recyclers. Although this option isn't supposed to apply to the maquiladoras, it is not known how Mexican agencies or waste-producing companies interpret this regulation.

Exemptions for Waste Being Recycled

It appears that some maquiladoras invoke the recycling provision for some solvents which are actually being dumped or disposed of in Mexican landfills. There is an incentive for not returning solvents to the United States, since tighter RCRA regulations now require treatment and prohibit the less expensive landfill disposal. Nonetheless, the residue from recycled material is still supposed to be disposed of in the United States

Environmental engineer Franco says some companies have found a way of circumventing the requirement that solvent residues be returned to the United States. He offers this example: "A maquiladora buys trichloroethylene (TCE) from the United States. It is used to clean some products in the Mexican plant and is now a waste product. The company returns it to the United States and sells it back to a Mexican solvent recycling company which, in turn, takes it back to Mexico to recycle at a lower cost than in the United States. The remaining residue is now Mexican waste and can be disposed of in that country.

TWC district manager Lockey visited one of the growing number of recycling facilities in Mexico and found conditions which would not meet United States requirements under RCRA. The company—Quimica Fortek in Chihuahua—had no safety training, inadequate safety equipment for workers, and chemical spillage outside its facility. It is believed many recycling operations know little about what they are handling or how to operate such a facility properly.

Confusion About the Definition of Hazardous Waste

Most maquiladoras don't even know what wastes Mexico regulates as hazardous. The Mexican government didn't develop such a list until 1987 and is still trying to bring it into line with United States standards.

Dumping of Hazardous Wastes

There is widespread suspicion that some significant dumping may be occurring—into the Rio Grande, the New River, down drain pipes, out in rural areas, or on company property. Some companies give their waste to haulers and don't ask questions about its destination.

Here are some of the concerns:

- The San Francisco Examiner reported concerns that some Mexicali maquiladoras were dumping industrial waste directly into underground pipes connecting most industries to the city sewer system. (Kistner, 1986).
- The California Regional Water Quality Control Board can't formally inspect sites in Mexico, so it has no way of knowing what dumping or contamination may be occurring.
- Environmental engineer Franco believes some plant operators sell drums of waste to small-time operators who dump the chemicals in the middle of the desert or in someone's backyard. Franco suspects other companies mix hazardous waste with regular trash and dispose of it as nonhazardous waste. (Pinkerton, 1988).

Companies give the waste to their haulers and don't ask questions.

Stockpiling Waste on Company Property

Considerable waste is being stored on-site because Mexico has no 90-day accumulation rule similar to the one in the United States. TWC's Lockey reports seeing layer upon layer of barrels containing waste stored on the property of a Juarez maquiladora. The study by El Colegio de la Fronteria Norte states: "Many companies have been storing dangerous waste in drums inside their assembly plants," it says, and "once they run out of space, they will get rid of these containers on clandestine disposal sites." (Juffer, 1988).

However, the study concedes there are no reliable estimates on the volume of waste being discharged by maquiladora plants. Due for release shortly, the study will point not so much to documented cases of dumping, but to the lack of adequate waste disposal sites in Mexico and the lack of reporting of proper disposal as indicators that a lot of waste is being mishandled.

Dumping Incidents

While the full extent of the problem can't be determined, these examples provide reason for serious concern:

- The San Francisco Examiner blames United States-owned maquiladoras for turning California's New River into "one of the dirtiest in the United States." (Kistner, 1986).

- The Examiner also reported that in 1986, Chromizing—which produces gas turbines and is a subsidiary of a California company—had a permit to send aluminum oxide and fluoride waste to an industrial dump 20 miles southwest of Mexicali. The dump site was finally closed by Mexican authorities because it was littered with chemical barrels, hospital waste, oily sludge and dog carcasses and threatened the Laguna Salada, a desert lake fed by drainage from the Colorado River.

- In 1987, a huge mountain of plastic bags dumped illegally on Mexican land by a subsidiary of Parker Hannifin Corp. of Cleveland was discovered to be the source of two years of clogging pumps that served a waterfowl area in the Audubon's Sabal Palms Sanctuary in Texas. The dump was mysteriously set on fire 24 hours after the Ohio company promised to clear away the tons of dumped plastics. Faced with concerns about air exposure from the toxics released by the burning plastics, the runoff of burned materials into the river, and the threat to marine life, the company cleaned up the remains from the fire.

- In January 1987, Matamoros newspapers reported that 12 maquiladoras had been fined for dumping contaminated water into canals leading to the Rio Grande. Mexican officials refused to provide information on the fines, saying only that the companies may have been "warned" to end the practice.

- The sale of recycled chemical drums from the maquiladoras is rampant in Mexico. They are sold openly in Juarez and end up in areas cluttered with makeshift shacks where residents use them to store water for washing and drinking.

- In early 1988, a General Motors subsidiary was discovered dumping hundreds of barrels of toxics at a desert waste site less than two miles from Matamoros's most popular recreational beach. Mexican authorities said the site is for non-toxic waste and that the GM subsidiary received permits limited to such non-contaminants as plastic and rubber. (Vindell & Reinert, 1988).

- Many United States companies are sending wastes to dumps in Mexico because it's cheaper than paying for proper disposal or treatment in this country. Texas Water Commission records reported that groundwater supplies are limited—in both quantity and quality—throughout much of the Rio Grande Valley, leading to increased competition between agricultural and municipal interests for a limited amount of surface water.

Areas with industries sitting atop shallow water tables risk losing future water supplies to contamination. Increased depletion of the Rio Grande will lead to more concentration of toxic material and a higher risk of aquifer contamination.

III. Risks to Water Supplies

As Maquiladoras grow, so grows the waste in the Rio Grande.

Testing for Toxics in the Rio Grande

Testing along the Rio Grande for industrial contaminants is almost nonexistent. The Austin American-Statesman reported that United States and Mexican officials and ecologists are unaware of any surface water studies on chemical contamination.

In 1988, the Texas Water Commission found significant levels of copper, selenium and mercury in the tissue of fish pulled from the Rio Grande near Laredo, Tex. But the absence of any earlier data made it impossible to determine whether the problem is due to industrial discharges or runoff from mining activities.

The situation is more acute in Nuevo Laredo, Mexico, which withdraws its drinking water below the point where the city discharges its sewage into the Rio Grande. J. R. Mathis, head of the Laredo Water and Sewage Department, believes Nuevo Laredo treats at the most 50 to 60 percent of its water. The remainder bypasses the inadequate treatment facility and recontaminates the entire supply on which residents depend for cooking, bathing and washing as well as drinking.

Mathis believes there is no testing in this part of Mexico for industrial contaminants in drinking water. Where Mexican cities dump sewage into the Rio Grande, there is also concern about industrial wastes that might enter sewage lines. San Ygnacio and Zapata cities south of Nuevo Laredo's discharge points and north of Falcon Lake where pollutants are further diluted may also receive water polluted with high levels of industrial contaminants.

Each year, the Texas Department of Health (TDH) is responsible for testing treated water from public supplies. In 1987, TDH tested all water systems with over 10,000 connections and in 1989 will test systems with over 3,300 connections. Larry Mitchell with TDH states that, thus far, industrial chemicals have not been discovered in the treated water. Since this testing is post-treatment, it provides no information on what might be present prior to treatment.

Bob Ybarra, United States director for the International Boundary and Water Control Committee, reports that Juarez treats its sewage in ponds and then uses the water for agriculture. So the major risks from bacterial and industrial contaminants may be to the workers in the fields and consumers in both Mexico and the United States who eat foods grown in these areas. Most of the agricultural runoff goes into interior floodway areas, posing a risk to groundwater.

With the real extent of industrial contamination in the Rio Grande unknown, the major concern on the United States side was expressed this way by the Laredo Water and Sewage Department's J. R. Mathis: "As maquiladoras increase in number and production, we will get toxic waste in the river which we can't treat out and which is detrimental to the human system."

Testing for Human Wastes in the Rio Grande

Testing in Texas has been primarily for contaminants from human waste. The TWC, International Water and Boundary Control, and Mexican officials coordinate some testing at 20 points along the river. They test for fecal coliform, ph content, chlorides, sulfates and dissolved solids. Extensive sampling conducted in and south of Laredo is for human waste indicators such as fecal coliform. Both the TWC and the Laredo Water and Sewage Department report very high fecal coliform levels, especially south of the 14 points at which Nuevo Laredo dumps raw sewage.

With growth in Nuevo Laredo, the daily dumping of raw sewage increased from 20 million gallons in 1984 to 25 million gallons currently. The results of increased sewage dumping are obvious when comparing the average bacteria count which is in the hundreds north of Nuevo Laredo's discharge and in the hundreds of thousands south of the last discharge point. Mathis says the levels of bacteria along some points between Nuevo Laredo and Lake Falcon are so high that it makes the lake "one of the largest sewage ponds in the United States" One local resident expressed concern about the increased amounts of chlorine which might be in local drinking water due to the need to treat for increasing levels of fecal contamination.

Franco states that in Juarez there is no sewage treatment system for its growing population, so waste used in the plants goes into a canal that is used for irrigating crops. (Pinkerton, 1988.) Although the raw sewage dumped into the canals is not supposed to be used to irrigate vegetables, no one really knows where it goes.

Dr. Irene Cech, a professor of environmental science and hydrology at the University of Texas, describes a study of the hundreds of wells which have been drilled overnight by the Mexican government in response to rapid growth in Juarez. The study revealed that all wells tested were contaminated with bacterial pollution which had leached through the porous soil from the drainage ditches.

Rio Grande Drinking Water Supplies and Cancer Rates

A study begun in 1985 may someday show a definite link between the drinking of Rio Grande water and high cancer rates. Cech noted that to date, 33 counties —all of which get their drinking water from the river—show statistically higher rates of liver and gall bladder cancer than the national average. In three counties which do not get their water from the Rio Grande, the rates are not abnormally high.

Cech stresses that a number of concerns have been raised about the Texas Department of Health's tests of public water supplies:

- Testing doesn't cover all industrial chemicals.
- State labs are overloaded, so some testing may be inaccurate.
- Many people living along the Rio Grande don't use public drinking water supplies or live in small communities where tests are not being made.
- Individual chemicals may be found at levels below the limits set by the Safe Drinking Water Act, but the combination of such chemicals may cause unanticipated damage to humans.
- Some testing may take place at times when contaminant levels in public water supplies may be lower than normal.

Juarez waste goes into the canals for irrigating crops.

Findings in Arizona and California

Border Ecology Project reports on tests which have shown elevated levels of toxic chemicals near the Maquiladora Industrial Park in Nogalas. Water samples from four Aqua Prieta drinking wells and a section of the Aqua Prieta River show the presence of some chemicals in drinking water and sewage. To obtain more complete details, it has been recommended that monitoring wells be placed closer to industrial sources in Nogalas and Aqua Prieta. Experts warn that the aquifer may already be contaminated, since its pumps are located hundreds of feet below the surface and at some distance from the current source of contamination.

Testing of the New River where it enters California shows the presence of more than 100 industrial chemicals. In 1986, the San Francisco Examiner reported extensive contamination of the river which flows through California's lettuce belt and into the Salton Sea, the state's largest lake. The newspaper quoted an EPA official as saying that the New River "contains every disease known in the Western Hemisphere." (Kay, 1986).

In another article, the San Francisco Examiner reported that maquiladoras with close ties to United States corporations are contributing to the problem, including:

- Fabrica de Papel San Francisco, a paper recycling plant, was suspected by United States environmental officials of discharging high levels of sulfides and pesticides. It is 49 percent owned by a subsidiary of San Francisco-based Crown Zellerbach.
- Quimica Organica has been identified by both United States and Mexican officials as one of the worst polluters. At one time it was owned by B.F. Goodrich Co., which produced pesticides and other toxic chemicals at the maquiladora. Although no longer owned by a United States company, the plant sells 40 percent of its products to American firms, with Uniroyal as its largest buyer.

Every known disease can be found in the New River.

California has been considering a $150-million bond issue to finance cleaning up sewage and toxics dumped on the Mexican side of the border. An official report put it this way:

"To bring the New River into full compliance with the standards set forth in. . .the Mexican-American Water Treaty will predictably be a costly process. Much of these costs upon government budgets could be averted if the Mexican government would undertake vigorous regulatory actions against the industrial dischargers." (Gruenberg, Calif. Regional Water Quality Control Board 1983).

IV. Communities at Risk

The Danger of Hazardous Materials Accidents

"The potential for an incident involving hazardous materials in Cameron County is high, (and) the majority of what is brought over from Mexico by truck or rail is unknown. It is only a matter of time before a Mexican truck carrying hazardous materials overturns and seriously contaminates a populated area."

That's the conclusion reached in a 1988 study by the LBJ School at the University of Texas in Austin. (Hadden, 1988).

The officer was writing a ticket when some unknown liquid spewed all over him.

There are two bridge crossings—heavily traveled by both pedestrians and vehicles—between Brownsville and Matamoros. They lie close to densely populated business districts on both sides of the border. To reduce the risk associated with the transport of hazardous material, consideration is being given to building a third bridge away from populated areas.

There is concern about transporting hazardous materials through El Paso. Primary routes include an interstate highway and two rail lines that run through the center of the city. The railway tracks are in cement ditches below street level and would be difficult to reach in case of an accident. Because of the close proximity of El Paso and Juarez, a serious incident in either could have major implications for the other.

The Transportation of Hazardous Materials by Mexican Truckers

American trucks can't enter Mexico to deliver or pick up hazardous materials, but Mexican trucks are free to enter the United States. According to the LBJ School study, "The Mexican trucks do not display the required placards and do not abide by the federal weight limitations." Jackie Lockett with the Cameron County LEPC believes that the Mexican transporters generally overload their trucks.

Ben Reyna of the Brownsville Police Department says his department writes tickets "galore" when inspecting Mexican trucks during roadblocks. They commonly write-up five to six tickets for an 18-wheeler and sometimes as many as 40. He cites such common problems as violations on placarding, manifests, weight, and tail and brake lights. Reyna describes one incident in which he was standing behind a Mexican truck writing up tickets when a container valve broke, spewing some unknown black liquid over him. He states that most violations involve Mexican trucks. The department is forced to detain Mexican drivers until they see a judge and pay their fine in order to guarantee payment.

The Border Ecology Project reports that one United States Customs agent recently stopped a truck hauling loosely packed barrels of 1-1-1 trichlorethane to a maquiladora in Aqua Prieta and arranged through Arizona's Department of Public Safety to cite the driver for a DOT violation.

Chemicals of Concern

Under prodding by Cameron County residents and Members of Congress, Customs conducted a one-time survey of chemicals imported from Mexico. More than 70 toxic materials including hydrogen fluoride and pentachlorophenol were logged as crossing the border in a 25-day period. But Customs wasn't familiar with chemical names, as illustrated by obvious misspellings and non-specific descriptions of the chemicals.

Hydrogen Fluoride

HF has been of extreme concern since 1986 studies showed it to be 100 times more dangerous than previously believed.

Says Fred Millar of the Environmental Policy Institute: "If there is any chemical in the United States that poses a threat of a Bhopal disaster, it's probably hydrogen fluoride." He contends that it can be replaced by much safer alternatives and has been substituted by at least 60 refineries in the United States. In 1987, a release of HF from the Marathon Oil Co. plant in Texas City spread a toxic cloud over the city, forced evacuation of 3,000 residents and sent hundreds of people to the hospital. Millar emphasizes that if it had been a release of liquid instead of vapor, "thousands would likely have died." (Environmental Policy Institute, 1987).

American firms have close ties with two plants that produce hydrofluoric acid in Mexico. Du Pont owns a 30-percent interest in Quimica Fluor in Matamoros and a Du Pont subsidiary buys 85 percent of its product. Allied Chemicals owns a 49-percent share of Quimobasico in Monterrey.

Quimica produces 100 million pounds of HF each year at a plant along the expanding edge of Matamoros. The small community of Ejido Guadalupe, with 2,000 residents, is about one block upwind from the plant, and housing is moving in the direction of the plant in response to the city's rapid growth. The plant is four miles from the center of Matamoros. Trains carrying raw chemicals and finished products move on tracks which start at the plant, cross a bridge which also carries cars and trucks, and runs along the west side of Brownsville, eight blocks from the center of that Texas community.

The 1986 studies indicate that the release of one-third of the contents of an unpressurized HF tank truck could produce a toxic cloud with a peak lethal effect as far as 4.4 miles downwind, and could be "immediately dangerous to life and health" as far away as 7.1 miles. (Environmental Policy Institute, 1987).

Residents of Ejido Guadalupe blame Quimica for a number of problems. Farmers say fumes have damaged crops and fruit trees and threaten their children's health.

Extremely high toxic levels have been found in all sorghum plants in a six-kilometer radius of the plant.

Farmers report that a release from the plant forced the evacuation of 3,000 people in 1986. Quimica claims the most recent accident was in 1980. (Pinkerton, 1988).

Pentachlorophenol

This is a highly toxic wood preservative and a major cause of dioxin contamination in the environment. It is already banned in Sweden and West Germany.

At the time EPA was negotiating dioxin limits with Idacon in Houston and Vulcan Chemicals in Wichita, a penta plant—Productos de Preservacion—was being built in Mexico under the maquiladora program's tax advantage.

Idacon is connected with the maquiladora, and Vulcan is the last remaining United States producer of penta, whose waste is listed by EPA as "acutely hazardous." Vulcan currently is licensed to accept dioxin-contaminated sludge. It is not known how Productos de Preservacion disposes of its penta waste. EPA requires Vulcan to conduct monthly tests of dioxin levels. But no one knows if the maquiladora conducts similar tests. As Greenpeace points out:

"United States companies operating in Mexico frequently enjoy obvious advantages: lower labor costs, tax savings and avoidance of more stringent United States environmental regulations. It would appear that all three advantages are applicable to Idacon's new plant producing penta in Mexico." (Sloan and Perivier, 1988).

Transportation and storage of penta products along the border include rail transport of Pentasolve, a raw material, to a Brownsville transfer terminal where it's stored in two 65,000-gallon tanks. Four tank trucks, each carrying 5,000 gallons of Pentasolve, transport loads to the Matamoros production plant daily. They return to Brownsville each day with 20,000 gallons of finished product which goes directly into waiting rail cars or storage tanks. As much as 15,000 gallons a day of a hydrochloric acid byproduct also is sent from Matamoros to the terminal. (Greenpeace, 1987).

Productos de Preservacion has been responsible for two hydrochloric spills according to Lockett of Cameron County. One occurred at a transfer plant in Brownsville as the acid was being removed from a rail car. Chemtrec—the industry-funded response network—was notified, but the wrong chemical was reported. Shortly before Chemtrec employees arrived to deal with what they were told was a "hydrofluoric" spill, they were given the correct chemical name. The second case involved the collapse of a storage tank holding hydrochloric acid at the Brownsville port, spilling the acid onto the soil and releasing a small toxic cloud into the air. Although relatively minor, these spills illustrate the potential for accidents more severe in nature.

Lack of Resources, Information and Coordination

The LBJ School study pointed to the inadequacy of local resources for emergency response. Cameron County is considering guidelines for training emergency personnel, but doesn't have the funds to do the job. The Brownsville fire department and emergency medical service do not require training for dealing with hazardous materials. And there is little specialized equipment to respond to accidents. (Hadden, 1988).

In a recent mock accident in Cameron County, the fire department received a call for assistance for an incident involving a "radioactive material" in a vehicle in downtown Brownsville. It took 20 minutes for a response unit to reach the scene.

Cameron County has a local emergency response committee to develop plans and implement community right-to-know provisions. But funds aren't available to help carry out the program, the committee has been plagued by inadequate cooperation from the United States Customs Service, and is hampered by a lack of coordination with police or fire authorities across the border.

Information on chemicals being transported and stored is sorely lacking. United States regulations on providing chemical lists and transporting hazardous materials do not apply to Mexico, even though an accident there could seriously impact the United States side. Mexican trucks traveling through Texas present an even more direct risk.

United States Customs is supposed to receive manifest copies from Mexican trucks crossing into the United States. Manifests are then to be sent to EPA's National Enforcement Investigation Center in Denver. According to one reporter, agents who are supposed to verify manifests against shipments have been instructed by Customs officials not to open containers or otherwise check the contents of trucks in order to protect their own safety. (Bonivita, 1987). Reyna states that Brownsville police investigations during roadblocks reveal that a majority of drivers of Mexican trucks do not have any kind of manifest or any idea of what they are carrying.

Inspectors told not to risk opening those containers.

Border Ecology Project researchers argue that, "to some extent, all these agreements and responsibilities seem to be in vain." They point to interviews at the Douglas/Aqua Prieta area and Nogalas, when two Customs officials said they had never seen shipments of hazardous waste cross the border, while one said that he may have seen a shipment cross, but it was years ago. (Kamp and Gregory, 1988).

EPA's efforts to improve the availability of such information included plans to develop a joint inventory of hazardous chemicals within 10 kilometers of the border. EPA has begun compiling such inventories for the sister-city response plans for Calexico and Mexicali. At a more local level, the

Cameron County LEPC has begun working with the Maquiladora Association and hopes to encourage maquiladoras to voluntarily provide chemical inventories vital to emergency planning.

U.S. worries don't stop the building of incinerators.

Project researchers have proposed a single communications code allowing United States and Mexican firms handling hazardous materials to record their use in border areas. Mexican and United States Customs officials must become the inspectors and record-keepers for all hazardous materials in border areas. (Kamp and Gregory, 1988).

Air Pollution

Jim Yarbrough, an EPA meteorologist, has been involved in an on-going agreement between Mexico and the United States on air pollution. There are deep concerns about the emission of solvents into the air by the growing number of electronics plants in the maquiladora complex.

Yarbrough is concerned that the solvents will contribute to the greenhouse effect. Hydrofluoric acid is widely used to make chlorofluorcarbons which are also blamed for contributing to the destruction of the ozone.

Mexico has provided EPA with an initial inventory of six types of pollutants being emitted from plants in Juarez and Tijuana. But they are defined only in the most general of terms, and there is no current way of knowing what emissions Mexico is measuring or how sophisticated are the measurement techniques.

There is also a potential for further environmental damage as a result of burning at landfills. The one at Aqua Prieta contains unknown amounts and types of maquiladora waste, and is adding to the existing pollution over Aqua Prieta and Douglas on the United States side. (Kamp and Gregory, 1988). Brownsville authorities worry about proposed construction of a large incinerator to serve an entire maquiladora park in Matamoros. (Lockett, 1988). And according to EPA's Allan Davis in Dallas, there are plans for seven more hazardous waste incinerators in Mexico, four of them in the border area where the maquiladoras are clustered.

V. Maquiladora Workers at Risk

The maquiladora workforce—composed mostly of young women and girls—is particularly at risk because of the lack of health and safety protections on the job. The problem takes many forms, including:

- Denial of information on chemicals used in the workplace.
- Machinery that lacks safeguards to prevent severe injury.
- Lack of protective clothing and equipment.
- Intimidation through threats of job loss or wage cuts.
- Firing of pregnant women.
- Refusal to hire women with children or women who are over a certain age.

PCBs turn the workers' hands black.

An examination of these harsh and unfair conditions contrasts sharply with the myth being perpetuated by the maquiladoras that adequate attention is paid to worker health and safety.

Lack of Protection for Mother and Fetus

The most dramatic danger from chemical exposure in maquiladora plants has been to unborn children.

A group of mild to profoundly retarded children, all of whom were exposed as fetuses when their mothers worked at the United States-owned Mallory Capacitators plant 10 to 14 years ago, now attend a special education school in Matamoros.

Dr. Isabel de la Alfonso, the school's director, has identified 22 children she believes suffered damage due to their mothers' exposure to PCBs. A separate study shows there are 10 more former Mallory workers whose children have similar damage. (Juffer, 1988).

Women's hands were exposed directly to PCBs. The chemical often splashed onto their arms and faces. They suffered rashes, their fingernails turned black, and they experienced nausea, headaches and fainting while at the plant.

Mallory was swallowed up in a corporate takeover after closing its Matamoros plant and has been through several buyouts or mergers since. This left a corporate paper trail, but no trace of a responsible party and no way to find out what range of chemicals was used at the facility. (Beebe, 1987).

Mexico's General Law on Health and Safety in the Workplace requires that when the health of pregnant women or their fetuses is endangered, they are to be placed in other jobs. But the rule is commonly violated in the maquiladoras. And without adequate testing equipment, exposures may occur in work areas thought to be relatively safe.

Reports by Maquiladora Workers

The following is based on visits with maquiladora workers at their homes in Matamoros on September 8, 1988 and on interviews with Reynosa maquiladora workers by McAllen Monitor reporters Barbara King and Arturo Longoria in Harlingen in June 1987. All names have been changed to protect the persons interviewed.

- Elena, 23, has been working at NECO, an electrical components manufacturer, and a subsidiary of Pittsburgh-based Allegheny International, Inc. She works with strong chemicals, but doesn't know which ones. Her symptoms include breathing difficulties, nausea, headaches, stomach problems, depression and emotional changes. When away from the plant for a few days, her symptoms disappear, only to return when she goes back to work. She is allowed to see a doctor at company expense, but it has to be the one chosen by management. The doctor has diagnosed her problems as "psychiatric."

- Another NECO worker reports pervasive smells of strong chemicals which she believes are solvents. She worked in the plant while pregnant and says that pregnant women were forced to continue working with the chemicals.
- Patricia first worked at Deltronics, a subsidiary of General Motors Corp. She says lots of workers became sick and many finally quit when they were refused masks while working with thinners. Exposure produced such symptoms as drugged or intoxicated behavior and red, irritated eyes.

She later worked at Condura, a subsidiary of Eaton Corp. of Cleveland. She says women working with solvents and resin fluxes were not provided with gloves and that only two pairs of goggles were provided on an assembly line where 50 women solder electronic parts. She is no longer working because of an injury which severely disfigured her thumb. Although Condura claims it has a nurse on staff at all times, none was present when she was injured, and fellow workers used a first aid kit to provide protection.

Two pairs of goggles were issued to the 50 women.

- With 8,500 workers in three plants, Zenith is the largest maquiladora in Reynosa. The company claims its plants voluntarily meet OSHA standards. But workers disagree and express concern about exposure to methylene chloride, the lack of fume extractors, and the handling of silicon without gloves or goggles.
- Maria, 35, worked at Zenith's Partes de Television de Reynosa plant. For ten years, she used soldering irons and breathed lead fumes and was exposed to hazardous chemicals. She has arthritic-like symptoms and can no longer work. Doctors blame her condition on working with chemicals and she receives monthly social security checks. Another worker reported dangers from soldering fumes in the Zenith plant because managers resisted installing individual extractors in all areas of the factory to draw off toxic fumes.
- Although the maquiladoras hire mostly young women, the Brownsville Rubber Co., a subsidiary of Parker Hannifin of Cleveland, is an exception. It hires men almost exclusively because heavy lifting is required and most work is done near hot ovens. Burns are commonplace, and many workers have lost fingers in machinery.

The Lack of Data on the Impact of Workplace Chemicals

Few studies have been conducted on health and safety conditions in the maquiladoras, and the extent of serious plant accidents tends to remain unknown, unless the effect is dramatic enough to be reported in the media.

In 1980, for example, the press reported that 35 workers at a Sylvania subsidiary were hospitalized in Juarez, suffering from severe nausea, vomiting and loss of consciousness following widespread exposure to fumes from a malfunctioning vat containing a carcinogen. The next day, company and government officials claimed the workers were merely suffering from "collective psychosis of a an imaginary ailment." (Erb/El Fonterrizo, 1980).

A similar incident of mass exposure occurred in Aqua Prieta at Equipo Aotomotriz, a subsidiary of Gateway Industries of Hazel Crest, Ill. A chemical release sent a number of workers to the hospital. (Kamp and Gregory, 1988).

In 1982, at a General Motors subsidiary called Rimir, a worker died following exposure to chemicals in a huge vat he was cleaning. Another worker reported seeing the man slip and lose his protective mask, but plant managers refused to provide any details to police or the press.

Dr. Monica Jasis, a researcher with El Colegio de la Frontera Norte, reported a high incidence of health problems among female workers in Tijuana plants. These included illness from inhaling lead fumes during soldering and eye problems caused by long hours bonding fine wires to circuit boards while peering through microscopes. She also indentified heart and blood pressure problems related to stress, and expressed concern about exposure to a wide range of toxic chemicals.

Jasis said that opposition from maquiladora owners and the refusal of government officials to respond to questions put a halt to her government-funded studies. (Erb).

Worker Initiatives to Improve Conditions

A few maquiladoras have taken steps to improve conditions, but only when they've been forced to do so.

- Kemet, a Union Carbide subsidiary, lowered exposure levels as a result of years of activism by workers and the pressure which a church group brought to bear on the firm's corporate headquarters in the United States. Others report that the change can be traced to Union Carbide's actions at all its plants in the wake of its Bhopal chemical accident which killed over 2,800 people and injured 200,000 more. A health and safety commission of 16 people—composed equally of management and worker representatives—has been set up at Kemet. Mexican law requires such commissions at all maquiladoras, but many of these plants simply ignore the regulation.
- Under pressure from workers, P.E.A. Industrial, a subsidiary of ITT Corp., made improvements at its Rio Bravo plant. It has installed extractors and other safety equipment and has assigned one worker on each shift to monitor health and safety. But it's reported that conditions remain bad at ITT's other plants in Torreon and Saltillo.

VI. An Unsettling Future

There is reason to be pessimistic about the environmental future along the United States-Mexican border because there appears to be no end in sight to the mushrooming of the maquiladora industry.

Henry King, director of the Small Business Institute at the University of Texas in El Paso, predicts a second maquiladora boom in Juarez that could dwarf the nearly 30-percent growth rate that took place in 1987.

U.S. companies don't seem much deterred.

There are reports that United States corporations may soon be allowed to own the land they currently are leasing in Mexico. This change could lure even more American firms across the border by promising them added control of their Mexican operations.

But the United States isn't the only target for Mexico's plan to expand the maquiladora complex. Continued devaluation of the peso could draw increasing numbers of companies to Mexico in search of cheaper labor. Japanese, Canadian and West German companies have already opened maquiladora plants, and firms in other countries are weighing similar action.

The problem comes down to this:

The maquiladoras are already generating waste at a pace that exceeds Mexico's capacity to handle it. And the situation will deteriorate further as new firms enter the country.

Experts predict that electronics will be the fastest-growing maquiladora industry. More companies are moving toward finishing products which require cleaning, priming and painting. Companies involved in chemical production have also increased.

A growing trend toward more sophisticated and complex production processes—as opposed to the light-industry, sub-assembly operations that dominated the maquiladora industry in the past—may result in more use of hazardous substances and the additional production of toxic waste.

Juarez is the classic example of what's happening:

- It already has over 300 maquiladora plants.
- Its population has skyrocketed from 700,000 in 1980 to 1.2 million today.
- It has no sewage treatment system and no nearby state- of-the-art hazardous waste disposal facilities.

Additional stresses on border towns like Juarez will result in increased sewage problems and illegal toxic waste disposal. As the need for waste facilities increase and as pressure mounts to stop contaminating both sides of the border, there are certain to be new proposals to establish facilities in Mexico that would be inadequate to the task and that could, therefore, pose added health, safety and environmental dangers in both the United States and Mexico.

Some proposals have already been opposed by border residents.

- Two years ago, General Motors considered building a waste incinerator in Matamoros to serve an entire industrial park. Brownsville residents objected to burning waste near their border, just as residents in communities across the United States now question whether incineration is a safe alternative to land disposal.
- In 1987, an Arizona-based group, G Systems, Inc., wanted to start a toxic waste site in Naco, Sonora. But Mexican authorities refused to grant permission for the dump, and enough publicity was generated in Arizona to raise a groundswell of opposition to any such future plans. (Border Ecology Project).

Meanwhile, the failure of the Mexican government to develop adequate environmental safeguards means that disposal of maquiladora waste in the United States—particularly in the border states of Texas, Arizona and California—will intensify.

Citizen groups throughout the United States are already actively battling new or expanded landfill sitings and hazardous waste incinerators for their own wastes. So it's likely that, particularly throughout the border region, American citizens will not take kindly to the thought of accepting waste from United States-owned maquiladoras that have exported jobs out of this country.

But American companies don't seem deterred. They see increasing opportunity to capitalize on cheap labor and to escape stringent health, safety and environmental regulations in this country by shifting operations to Mexico.

While more and more United States corporations operating maquiladoras continue to ignore the consequences of the environmental damage they are causing to workers, their families, and the fragile ecosystem on both sides of the border, both countries must undertake a massive effort to address this alarming situation.

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Chairman GIBBONS. Thank you, Mr. Anderson.

Mr. Beckman.

STATEMENT OF STEVE BECKMAN, INTERNATIONAL ECONOMIST, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. BECKMAN. Thank you, Mr. Chairman.

The UAW appreciates having this opportunity to testify before the subcommittee this morning. Our statement reflects the views of the union on a variety of issues that my colleague, Mark Anderson, has touched on here this morning.

The UAW strongly believes that entering into negotiations with Mexico for a free-trade agreement is not the appropriate way to resolve the tremendous differences in living standards and conditions between the United States and Mexico, nor to improve the standard of living of Mexican workers.

To the extent that we do enter in negotiations with Mexico regarding economic relations, it should be done with the clear understanding that workers in the United States must benefit, and we should not enter into this from the presumption that free trade by definition will in fact accomplish that.

And I come to this hearing, having been here to discuss the United States-Canada agreement, and so I would like to focus the short time I have on the ways in which a free-trade agreement would differ from other negotiations that we might enter into

Chairman GIBBONS. Certainly. We will be glad to have it.

Mr. BECKMAN. Excuse me?

Chairman GIBBONS. We will be glad to have that.

Mr. BECKMAN. Well, first of all, as Mark Anderson pointed out, the institutional differences between the United States and Mexico are substantially different from the institutional differences between the United States and Canada. And it would be very unfortunate if this were not put in the forefront of our analysis of what goes on in Mexico. And not the least of these differences is in the political sphere.

Here we have, as Mr. Rogers has testified, as you yourself mentioned earlier, in the early 1980's, there was a very substantially different position and opinion in Mexico regarding economic relations with the United States. The changes that have taken place are extremely recent. We do not really know what the institutional base for the existing government is. The elections have been criticized by a very wide segment of the population of Mexico as fraudulent. And here many people are proposing, the Mexican Government is proposing entering into a free-trade agreement with a government that may not in fact represent its people. This was certainly not a consideration in the Canadian negotiations with the United States. We knew what Government we were dealing with; we understood the institutional arrangement; and it was not changing dramatically at the time when these discussions were entered into.

This is not the case in Mexico, and we should be very careful about making any assumptions regarding the future political stability in the country.

With respect to the auto industry in particular, Mexico has set as a priority becoming integrated into the North American automobile market. That is not secret, and its impact on the U.S. economy is also no secret. When the United States and Canada negotiated a free trade—a modified trade agreement in automobiles in 1965, we did not consider it to be a free-trade agreement—Canada's share of assembly for the North American market, the United States and Canada, went from something around 5 percent to recently up around 16 percent of the total market. Well, Mexico is nowhere near 5 percent assembly for the North American market currently. But, certainly, it does intend to become a much larger player in the North American market. And its stated objective is to be the producer of small cars for the entire North American market.

Given that during the period of 1965 to 1985, the first 20 years of the United States-Canada agreement, the North American auto market was growing, and currently it is not, and it is not anticipated to grow substantially in the future, any increase in Mexican assembly will be taken away from assembly in other parts of North America. And while the Mexican market may grow some, it is not expected to grow rapidly, nor is the market tremendously large in the longer term.

So, at a time when employment in the U.S. auto industry is already shrinking and is already hundreds of thousands of employment opportunities below the level in the late 1970's, adding a further incentive for production to move from the United States to Mexico would be a serious problem for workers in our industry.

One other item I would like to note is that also different from the United States-Canada negotiations, the employment pool that would be opened by a free-trade agreement with Mexico is very much a low-wage labor pool. And that is a historical development.

Mr. Rogers, I think, quite well described the economic problems that have faced Latin America and Mexico in particular in the last 10 years. And we are coming off a 10-year period when the United States has focused on increasing employment in low-wage jobs. The rapid growth in employment, the growth in employment that has taken place in the past decade, was in low-wage employment predominantly. And the problem for American workers with that development has been that real incomes have fallen and that workers' families are forced to send more of their members out to the work force in order to maintain living standards, and that real average hourly wages have fallen since the middle 1970's.

Now, if we expand our labor pool to include Mexico, we are encouraging further expansion of low-wage employment rather than investment in the kind of technology and training that is essential for maintaining high living standards in the United States. That is a development strategy for this economy which is not going to be beneficial for workers. And we feel very strongly that, given the experience we have seen in the maquiladoras industries, it will not be a positive experience for Mexican workers either because the initial stage of integration will be from the maquiladoras back to the previously protected Mexican industries. And the maquiladoras' wages are somewhere on the order of a third of the wage levels in those industries in the center of Mexico where auto workers and many other workers have been employed and protected from the international market.

Those wages will be lowered in the process of integration. And it is our serious feeling that not only will the living standards of those workers be depressed, but they will add to the very large pool of frustrated, discouraged workers in Mexico who are the potential pool of immigrants to the United States, and that the initial stage of integration will in fact increase pressure for immigration to this country rather than diminishing it, as many of the proponents of the United States-Mexico free-trade agreement tend to claim.

So, with those comments, I will look forward to answer any questions you may have.

[The statement of Mr. Beckman follows:]

STATEMENT OF
STEVE BECKMAN, INTERNATIONAL ECONOMIST
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
before the
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

on

U.S.-MEXICO ECONOMIC RELATIONS

June 28, 1990

Mr. Chairman, I am Steve Beckman, an international economist for the UAW. I appreciate having this opportunity to present the views of the UAW on the economic relationship between the U.S. and Mexico. We strongly oppose the initiation of free trade negotiations between our two countries. Such negotiations would not successfully address the concerns of our members and other Americans regarding the impact of U.S.-Mexico economic integration. Before directly addressing this issue, though, I would like to briefly discuss the UAW's assessment of the present situation in Mexico and offer an outline of the past decade's economic developments in both countries that provides the background for the present interest in bilateral talks.

The economic changes underway today in Mexico are truly profound, from the privatization of state-owned monopolies to the elimination of various import barriers. In this sense, they are consistent with changes in Central and Eastern Europe and offer similar potential and similar dangers.

There are those who argue that these new economic policies are the result of the outstanding performance of the U.S. as a model of political freedom and free markets that has vastly out performed other models available and that Mexico, just like Japan, Korea, Taiwan, the Philippines, Nicaragua, Poland, Brazil, etc. have chosen to become more like the United States.

The UAW's view of this process and these events is quite different. In Mexico's case, we see the present policies of de-regulating industries, imposing an export-orientation on production and closer integration with the U.S. economy as the result of governmental desperation, not ideological conversion. In 1982, economic depression struck in Mexico when the U.S. economy dived into the most severe recession since the 1930's and interest rates soared, making interest obligations on Mexico's foreign debt unpayable. Mexico has not yet recovered from that depression. Living standards for the vast majority of working Mexicans have fallen substantially and unemployment has remained high. It is the slow growth in the U.S., and in the developed countries generally, in the 1980's that brought about the desperation of the Mexican government that was elected in 1988.

The poverty and hardship experienced by most Mexicans in recent years was intensified by the Reagan Administration's response to the weighty burden of debt on Mexico's government. The IMF and World Bank, along with private banks in the U.S., led by the U.S. Treasury Department, pushed Mexico to repay its debt obligations in full by squeezing living standards and draining capital from the Mexican economy.

With no local sources of capital to generate economic growth, the Mexican economy stagnated. The Salinas government initially focused on reducing the burden of foreign debt. The announcement of a plan for debt reduction by U.S. Treasury Secretary Brady last year was followed by lengthy negotiations with Mexico that resulted in a rather modest amount of debt relief. With this source of growth-stimulating capital still insufficient, Salinas looked for additional investment by foreign multinational corporations. The Mexican government's "liberal" economic policies are directed at attracting this investment because the multilateral and multinational banks, along with the Mexican elite, have already bankrupted the country. Claiming this as a victory for freedom and democracy rings hollow with Mexican workers and American workers as well.

This economic debacle in Mexico has had a direct effect on American workers. As the dollar value of real wages in Mexico fell below those in Korea, Singapore, Brazil and other developing countries, U.S. firms moved production to Mexico, or threatened to do so unless American workers lowered their wages and benefits, weakened workplace protections or made other concessions. Some workers have been forced to accept these conditions to save their jobs.

The debt crisis in Mexico reduced demand for products made in the U.S., as scarce Mexican funds were shipped to bankers, not used to pay for the output of industrial producers in this country. Thousands of American workers, and many UAW members, lost job opportunities as a result. Mexico also promoted exports to the U.S. to generate dollars for debt service payments. The intensified import-competition from Mexico caused more American job losses.

The UAW and other unions have watched with anger and horror the rapid expansion of maquiladora production in response to Mexico's debt crisis. American jobs have moved across the border to pay predominantly young women far less than one dollar per hour. The living conditions in the rapidly growing Mexican border towns are appalling and the stories of toxic waste dumping are truly frightening. A few more Mexican workers are indeed employed because of these investments, but do these jobs provide a foundation for a brighter economic future for Mexican workers? We think not.

The maquiladoras constitute a model of economic development tied to having the lowest wages in the world to attract multinational corporate investment that produces for foreign, not domestic, markets. Poorly paid workers can't afford to buy "internationally competitive" products. We have not seen Mexican workers' living standards raised by this economic development strategy.

Mr. Chairman, this is the economic situation we see in Mexico today. Working people there are under severe economic strain. The UAW strongly believes that the U.S. has a responsibility to ameliorate this economic distress, but it must do so in a way that also promotes the interests of American workers.

As you are aware, Mr. Chairman, American workers have not fared well in the 1980's either. While we have not been subjected to the economic deprivation experienced by Mexican workers, we have suffered from declining average real wages, paltry productivity improvement, an escalating public and private debt burden and a concentration of new employment in low wage jobs. Employment in industry after industry in which international trade is a significant factor has declined in the past ten years despite the high and rising level of productivity in these industries. The Reagan Administration's economic and trade policies helped to encourage this decline, while favoring the growth of service industries with no international competition, such as wholesale and retail trade and medical services. The first two years of the Bush Administration have not re-oriented U.S. policy. The relatively low wages and inadequate health and pension benefits that characterize jobs in these industries keep millions of American workers and their families struggling week to week to make ends meet. Thousands of UAW members displaced by international trade have suffered steep declines in their living standards and the well-being of their families and communities has suffered as well.

This, then, is the context in which the discussion of U.S.-Mexico economic relations takes place. The Administration, the Congress, the labor movement and others in the private sector must evaluate the implications of the proposed bilateral trade talks for the U.S. and Mexican economies from the starting point of this reality, not from abstract speculation about "free trade."

Clearly, economic integration between the U.S. and Mexico is moving ahead even without a formal agreement. Already, the two countries' labor markets are being merged with decidedly adverse results for workers on both sides of the border.

Our experience with maquiladora production tells us what to expect if a free trade agreement accelerates this process and precludes alternative approaches. Certainly, there will be more U.S. and other foreign companies shifting production to Mexico, as an alternative to U.S. production, to pay pitifully low wages that perpetuate poverty rather than relieve it. Workers in previously protected Mexican industries, such as its domestic auto industry, will face intense pressures to lower their wages to the maquiladora level, just as American workers have faced this pressure. In the process, many will be displaced from their jobs. The maquiladoras have encouraged U.S. immigration by attracting impoverished Mexicans to the border where they come in contact with, and have access to, the U.S. side. Those who lose their jobs in the integration process are likely to swell this pool of immigrants.

We expect that it will become clear to Mexican workers, just as it is clear to us today, that the export-oriented strategy adopted by the Salinas government turns large segments of the Mexican economy into maquiladora industries based on low wages and access to the U.S. market. The markets of Europe and Japan are not targeted because they are neither large enough nor open enough to exports from Mexico.

The Mexican low-wage economic development strategy has its corollary on the U.S. side of the border. By linking its economic fortunes with Mexico, the U.S. opens up a vast reserve of low wage labor that allows the past decade's policy of creating millions of low-wage jobs to continue. Unfortunately, this policy discourages domestic investment in technology, machinery and other capital equipment needed, along with investments in education and training for workers, to raise living standards for American workers.

While we foresee increased U.S.-Mexico integration as contributing to depressing living standards for workers of both countries in the near term, this is by no means the only source of problems that further integration would promote. One of the most important of these is in the area of environmental policies. Here again the maquiladora experience is instructive. The much less stringent environmental standards in Mexico have allowed the rapid deterioration of the quality of the water and air along the U.S.-Mexico border. Despite a requirement that toxic wastes generated by maquiladora production be shipped back to the U.S. for proper disposal, very little of the waste has been transported.

The lack of enforcement of existing standards and lower environmental standards generally would encourage producers in U.S. industries to move to Mexico rather than invest in pollution-control equipment and technology. This shift has already started in the furniture industry. Amendments to the U.S. Clean Air Act will, no doubt, raise this concern for more U.S. industries. Guaranteed access into the U.S. from Mexico would be a strong incentive for relocation.

Another important area of disparity between the U.S. and Mexico is in the political process. Mexico's political system has been only marginally responsive to recent demands for free and fair elections. The election that brought Mr. Salinas to the presidency in 1988 with barely more than 50 percent of the vote was widely characterized as fraudulent. Subsequent local elections have resulted in similar charges. More than fifty people have been killed in the public outcry over electoral fraud. Therefore, it cannot be assumed that the Mexican government speaks for its people with the same legitimacy as governments elected without this type of controversy.

Our discussion of U.S.-Mexico economic integration would not be complete without touching on its impact on the auto industry. It must first be understood that the U.S. treats imports from Mexico the same way it treats other imports — our market is essentially open — while Mexico has had restrictive rules governing auto production and sales since the early 1960's. Mexico's recent revision of these rules was announced late last year and goes into effect in November of this year. While it would allow imports of vehicles by domestic Mexican producers, under rather limited conditions, it maintains the most significant feature of the past decade's restrictions — the trade balancing requirement. This bilateral auto trade regime is quite different from the U.S.-Canada arrangement, which is inequitable but not as restrictive. The U.S.-based auto producers all built engine plants in Mexico shortly after the auto decrees mandated that each company balance its trade. More recently, built-up vehicle exports to the U.S. have grown as a way to keep unused capacity in Mexico running and to generate export credits. The UAW has objected to this virtual export requirement since 1977, but to no avail. Despite the rhetoric about the priority given to market opening from one U.S. Trade Representative to another, the UAW's complaints have received no serious response. Our efforts to convince USTR to include this issue in the U.S. discussions with Mexico on GATT accession and the negotiations leading to the framework agreement were unsuccessful.

The result of the limited liberalization of auto trade under the new decree will be to expand trade and to increase the U.S. auto trade deficit with Mexico. A clear goal of the Mexican government is to become the small car production base for the North American market — that is, the U.S., Canada and Mexico. Ford's assembly plant in Hermosillo, making 1991 Ford Escorts and Mercury Tracers was the first attempt at such production and it is seen as a model. The fact that Ford used to have two U.S. plants building Escorts and now has only one tells you what this would mean for U.S. employment. Volkswagen closed its Pennsylvania plant in 1988 and replaced its domestic output of Golf models with Mexican production; and VW Jettas, which were also made in Pennsylvania, are likely to be coming from Mexico soon. Honda and Nissan appear to be close behind. Nissan has announced plans to invest $1 billion in Mexico over five years and Honda has a large plant near Guadelajara that is now assembling only motorcycles.

The internationalization of North American auto production in the 1980's turned the U.S.-Canada Auto Pact into a net export generator for Canada. U.S.-Mexico auto trade can be expected to follow the same course if the unbalanced government requirements now in place remain. That is why the UAW opposes the Administration's path toward integration. It is simply unbalanced.

Mr. Chairman, just as the Reagan Administration saw the election victory of the Canadian Progressive Conservative Party as an historic opportunity to institutionalize the rollback of government influence over Canadian economic policy through a free trade agreement, the Bush Administation is considering the same opportunity in Mexico. The U.S.-Canada agreement generated broad and deep concern by a large number of groups in Canada, including unions, regarding sovereignty and social goals. American workers objected that the agreement ties the hands of the U.S. government in addressing industrial and social problems that may arise and ignores the disparity between Canadian and U.S. government intervention in economic development. We see the U.S.-Mexico talks as a potentially much more devastating replay of this process. The tremendous differential in the level of economic development between the U.S. and Mexico means that our social priorities are far apart. The differences in our political systems mean that our methods of sorting out these priorities and marshalling social resources to deal with them will be very different. A purely economic arrangement, such as a free trade agreement, would not be capable of coming to grips with these institutional differences between our two countries, and we, therefore, reject this approach.

The UAW has supported more extensive debt relief for Mexico for several years as a means to stimulate Mexican growth and demand for U.S. manufactured exports. We have called on bankers to pay their fair share of the burden created by Mexico's debt crisis. The funds made available should be used to generate jobs that pay enough to allow Mexican workers to meet their basic needs and build the foundation for further economic development. We also support democratization in Mexico and stand ready to assist the process of democratically-oriented development in any way possible.

As we did during consideration of the U.S.-Canada agreement, we will be seeking out, and joining with, groups across the U.S. and in Mexico that recognize the dangers of the current path and seek economic development strategies that raise living standards, promote equitable income distribution, and recognize the appropriate role of government in promoting industrial strength in both countries.

We will, of course, continue our ongoing discussions with the Administration on U.S.-Mexico auto trade and the broader economic relationship and we will continue our discussions with those in the U.S. and Mexico who share our concerns.

Mr. Chairman, thank you for giving me this opportunity to provide the Subcommittee with the UAW's views on this important issue. I would be pleased to answer any questions you and members of the subcommittee may have.

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Chairman **Gibbons**. Thank you, Mr. Beckman.

Mr. Gundersheim.

STATEMENT OF ARTHUR GUNDERSHEIM, DIRECTOR OF INTERNATIONAL TRADE, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO, ON BEHALF OF JACK SHEINKMAN, PRESIDENT

Mr. **Gundersheim**. Thank you, Mr. Chairman.

This week, my 7-year-old nephew takes off for summer camp. And one of his objectives is to learn how to swim. And I would suggest that the general philosophy, the sort of economic environment which we are in sort of says to my nephew, "It is better to be thrown in the water, you learn to swim pretty quick." And nobody has to question what happens if he drowns.

And that is really what we feel a bit about the free-trade agreement. What happens if our industry drowns? What happens if the economy sinks? We just say, "Hey, that's the breaks, that's the way we go." I mean we frankly don't understand that.

And the reason we object to that quite frankly is because our society is not built on that concept. We have never maintained that economic efficiency, that totally unfettered markets are the only value or the primary value around which all relationships are built. We have equally valid and equally strong social and political and economic values that deserve equal treatment and equal share of the structure that is being developed. Because, without it, quite frankly all we do is regress back to our economic history of 80 and 100 years ago. I mean all you got then was poverty and robber barons, and nothing in between.

And I think our own history provides an enlightening example. I mean, after all, we allow open labor markets. But we say no to child labor; we say no to unreasonable hours of work; that is for everyone except those on the Hill; and we put a floor under wages.

We say that business can do what it wants. But it has to do it in such a way that it does not kill or injure its workers or destroy the environment for the rest of the society.

You say you can use all of your entrepreneurial skills up to a point such that you can't use predatory business practices. We insist on antimonopoly and antitrust restraints. We control securities fraud. We have consumer fraud regulations, a whole number and series of things that provided general good for society that, in fact, impinge on sheer straight textbook economic efficiency.

And these are the restraints of our free market that really make American society what it is. And in none of the discussions have we heard about this in our free-trade agreement with Mexico or, for that matter, the earlier ones that were negotiated, or in fact what is being negotiated in Geneva.

Are any of these ancillary—I shouldn't say ancillary—equally valid values, incorporated into those agreements? No standards are set, no demands are made in those regards. And I would seriously suggest that in Congress' review of the negotiating mandate that deals with the administration, that such standards be made of equal value with all the rest of the goals—the items that are being negotiated.

The second point we would like to make quite frankly is what assurances a free-trade agreement with Mexico will not add to our trade deficit? My colleagues have talked a bit about the unequal trading situation. Quite frankly, we do not see Mexico as a market of 80 million people to which we can export. It is a market of 8 million people. And that is really basically due to the unequal economic distribution in that country.

And unless something is done about the structural situation in Mexico, we quite frankly don't see the export opportunities that everybody talks about as being the benefit on the American side.

We are also a little bit worried—quite frankly, our members are a little annoyed. You know, they see America as giving a tremendous amount of assistance to that country. It did not get a hundred plus billion dollar debt out of the blue air. I mean that was a lot of money that was funneled down there. Our members are a little disturbed that about $50 billion of that was stolen quite frankly, and sits in U.S. banks in private accounts.

So there has to be some structural reform that has to go along with the economic reforms.

The third point I would like to make relates to the same point as this sort of blind assurance that everybody is better off if you have a free-trade agreement. If I look for a comparable example, most of the States of Africa have essentially had free-trade agreements with the European Community through the LOME Convention. And I don't quite see the great economic development that has happened in Africa as a consequence of that agreement. So I don't see a whole lot of evidence that automatically there is an economic benefit as a consequence of a free-trade agreement.

The fourth point has been made already that the real issue is debt relief because that has a greater economic effect on the standard of living in Mexico than any other single item. The debt problem was partially responsible because of the austerity policies demanded by the international institutions and by the private sector that forced real wages down 50 percent in Mexico. And that is really the only reason Mexican exports expanded to the United States is because the real wages dropped 50 percent and, in fact, there has been enormous devaluation of the peso over the last 3 or 4 years. The consequence was that Mexican wage rates became directly competitive with Far Eastern competitors, not vis-a-vis the United States, but vis-a-vis the rest of the world. And that's the real issue.

The issue is is Mexico going to be on equal terms with the worst economics in the Far East in order to maintain its competitive advantage or not? I mean it seems to me that what you really have here is a kind of a sinking to the lowest common denominator.

The fifth point I would like to make is our past experience with free-trade agreements, particularly the one with Israel, raises real questions of administration of it once it has been negotiated.

On the question of enforcement, we in the textile industry have had tremendous problems with transshipment, with fraud coming with the opening of the Mexican quotas, other countries taking advantage of a situation that, quite frankly, the Mexican Government has not administered to the degree one should expect.

We have had experience with Israel instituting border taxes, and other kinds of uplifts to American exports, to totally counteract the duty reductions that they committed to under the United States-Israeli Free-Trade Agreement. And the administration has done nothing to demand the removal of that disadvantage; it has done nothing to retaliate as far as I know at this point.

The final point I would like to make, and despite your opening statement, and the statement that other people have made, that we are not creating free trading blocs, I don't see how anybody can otherwise see it; in fact that you are de facto creating it by definition.

Between the North American, Mexican, and now adding in the rest of Central Latin America and South America do make a trade bloc de facto because all the countries and the other major trading partners around see themselves as having no choice but to form similar kinds of unity arrangements with those close to them. And we quite frankly think that, despite everybody's great intentions, the world is moving towards three very insulated and separate economic entities whose consequences quite frankly I don't think anybody can predict.

Thank you very much.

[The statement of Jack Sheinkman follows:]

STATEMENT OF JACK SHEINKMAN, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

The Amalgamated Clothing and Textile Workers Union represents some 280,000 members, most of whom work in the soft goods industries of textile, apparel, leather, and medical (first aid type) products and the photocopying industry in durable goods. We appreciate this opportunity to present our views on U.S.-Mexico economic relations and the consequences of negotiating a free trade agreement with Mexico.

There seems to be a rush toward judgement on the overwhelming benefits of a free trade agreement by the Bush Administration and several members of Congress which seems to be based upon faith in ideology rather than examination of fact. The consequences are of wholly different dimensions than our free trade agreements with Canada and Israel and requires much more detailed examination than was undertaken for those two agreements.

I need not review for this Subcommittee the ruinous import situation in textiles and clothing. Everyone here is familiar with the data through the debate over legislating import controls. All I need add is that the increase in imports continues strongly, despite our quota program and the drop in the exchange rate of the U.S. dollar. In fact, in a new study just published this week by the Institute for International Economics, author William Cline argues that the United States needs to insure a growth rate of 9 percent in quotas in order for the transition to GATT rules to result in trade equivalent to a quota free level and to have zero cost to the consumer. Imports over the last decade have grown at a rate 50 percent higher than Mr. Cline's theoretical ideal!

There are a number of issues the Subcommittee should examine very carefully before endorsing negotiation of a free trade agreement with Mexico. For brevity, we will only outline them today, for each one deserves extended discussion.

The U.S. trade deficit is slowly coming down but is still at intolerably high levels. This despite all trade negotiations to gain market access for our exports, the final fruition of the Tokyo Round tariff cuts and non-tariff barrier codes being implemented and correction of the ultra-high dollar exchange value from its peak in 1985.

How will a new agreement with Mexico help bring down our unacceptable trade deficit? Our analysis indicates that there is insufficient disposable income, insufficient consumer or industry demand to attract American exports in anywhere near the amount necessary to offset the sure acceleration of Mexican exports to the U.S. American manufacturing industries and labor intensive services will relocate in Mexico for export purposes to a far greater degree than any benefits derived from gaining more open access to their market. The current U.S. trade deficit with Mexico will grow, not shrink.

Is a free trade program with Mexico the best way to solve the unemployment and debt program of that country? The types of industries that will primarily provide increased employment in Mexico due to a free trade arrangement will be assembly operations that are the lowest paying and least value-added of all manufacturing jobs. The maquila growth of the last several years has mainly attracted young women, aged 16 to 25, into the work force who were not there previously. Almost no jobs were created for unemployed males or anyone over 30 where the unemployment problem of Mexico is the most debilitating. The majority of new production facilities in Mexico will be American owned, or Japanese, or other foreign ownership and thus the greatest portion of the profits from these investments will be repatriated outside Mexico rather than retained for further investment and development in Mexico itself.

That the total new dollars flowing into Mexico due the incentives of a free trade regime will come anywhere close to solving that country's debt problem we find completely unrealistic. To ask thousands of Americans to lose their jobs for some vain hope of Mexican debt resolution is cruel. In fact, our members are enraged when they read that a few corrupt politicians and greedy businessmen have exported half of the $100 billion debt amount to their private bank accounts outside the country. There must be real structural reforms in Mexico before the benefits of trade will have any impact on the debt problem.

To negotiate a free trade agreement without any restraints or conditions that reflect our other, equally vital, social and economic goals is to come close to recreating internationally the abuses of the market America experienced in the early 20th century. We learned the necessity of anti-monopoly and anti-trust enforcement. We saw the need for fair labor standards, minimum wages and prohibition of child labor to prevent exploitation and degradation of human beings. We enacted laws on health, safety, and environmental protection, laws on preventing securities fraud and consumer fraud, laws on a mandatory employment financed retirement program, and so forth. Are any of these going to be included as necessary parts of an unfettered market, given equal status with economic efficiency criteria?

What are we going to do to prevent transshipment of products produced elsewhere and exported to us through Mexico to take advantage of the free trade agreement? In textiles and apparel there is substantial experience of Mexico being used for quota and duty evasion. In part, this is due to the pervasive corruption existing in Mexico and in part to the inability of Customs to adequately monitor the border.

Problems of enforcement of standards and agreements are not Mexico's alone. The U.S. has a dismal record in enforcing the free trade agreement with Israel. In fact, the brazeness of Israel's adding border and uplift taxes to completely counteract the duty reductions that they committed to in the agreement is quite open. U.S. officials have been aware of these violation of the FTA for some time. Nothing has been done to rectify it. The fact that the U.S. government has allowed these practices to continue sends a clear signal to prospective FTA partners like Mexico that commitments that disadvantage domestic industries are intentionally tolerated.

Larger issues are also affected by changing our economic relationship to Mexico. Are we defacto Balkanizing the world trading system? By extending a single market from North America to Mexico, to the Andean Pact countries (for whom President Bush has recently extended special trading privileges) are we not creating the Americas trading block even before the European and Asian blocks are formed and thus forcing them into such a mold?

If the U.S. government is truly interested in helping Mexico -- as our union would certainly encourage -- the solution does not lie in direct competition with the labor and living standards of Mexico. It lies in forgiving the burden of debt crushing the economy of that country. It lies in a significant cutback in Far Eastern NIC's access to our market in textiles and apparel. Only such a measure will shift a meaningful amount of apparel manufacturing to Mexico.

American workers are fed up with being the casualties of other nation's economic problems. They care about helping and encouraging development in poor countries. But it should be a burden shared by everyone in our country and in a rational manner. They say with perfect legitimacy that it is the President's and Congress's first and primary responsibility to preserve our jobs and well-being, and not absurdly promoting job flight to other countries.

Chairman **Gibbons**. Well, thank all of you. I think you added to this discussion some very valid points.

And let's see. Mr. Guarini.

Mr. **Guarini**. Thank you. Mr. Anderson, speaking for labor, would you say that minimum wage, and health and safety standards must be part of the agreement if an agreement is struck?

Mr. **Anderson**. Mr. Guarini, I think certainly in any negotiation concerning United States-Mexico economic relationships, we would be favorably disposed to the setting of standards in a wide range of areas, in a fashion that would not only help to protect the standards that we enjoy here in the United States but also, to help encourage and promote the kind of economic development I think everyone is seeking in Mexico.

Mr. **Guarini**. I have heard an estimate of 400,000 jobs may be lost. Do you estimate that many jobs were lost as a result of an agreement that would be made in free trade with Mexico?

Mr. **Anderson**. It is difficult to put a number on it, Congressman. I think certainly the experience that we have had over the last decade with the tremendous growth of the maquiladora program, and where there are currently 450,000 workers producing solely for the U.S. market is a useful guide. The one thing we do know is that if that production took place here in the United States to service our own market, even taking productivity differences into account, employment in the United States would be hundreds of thousands higher.

So, certainly the potential job loss from a free-trade agreement would be very severe.

Mr. **Guarini**. What should be done with those Americans then, if there are hundreds of thousands of jobs lost? Retraining? Relocation? Can you give us any suggestion as to what labor would want as a tradeoff in order to protect the working people of our country?

Mr. **Anderson**. Well, Congressman, there you are posing a very difficult dilemma for workers in this country.

Certainly, if experience over the last 10 years is any guide, the U.S. Government has not been particularly helpful in providing the kinds of adjustment assistance and training that has been sorely needed for workers who have lost their jobs to trade in the last 10 years.

I see little expectation, and I certainly would hope that I am wrong, that that circumstance would change dramatically so that people would have the opportunity to shift into other forms of employment.

But second, and perhaps more importantly, Congressman Guarini, I think the U.S. Government has to take a fundamental look as to whether or not it is in this Nation's interest to sacrifice significant segments of whole industries, whether it be in textiles and apparel or electronics or auto production. That is the kind of discussion that needs to take place.

Mr. **Guarini**. We used to have a TAA, until it fell into disuse, in order to protect people where trade created a dislocation of our employment.

What sectors would be hurt the most? I know automobile companies are very concerned, and textile companies are very concerned, and these are two industries which are major industries in our

Nation. There may be winners or losers, but would it only be the automobile and textile sectors that would be principally concerned with the agreement as losers in this partnership?

Mr. ANDERSON. I think again, Mr. Guarini, if experience is any guide, the nature of U.S. investment and production in Mexico involves virtually all industries in the manufacturing sector.

You have literally Fortune's 500 producing along the Mexican border for export to the United States. And so I believe the dislocation could indeed be very wide ranging.

I would only add parenthetically about your mention of trade adjustment assistance, that there is one instance where it is sadly operational. This relates to the Zenith plant, and the pay stub that I attached to my statement. Just last year, an additional 270 workers at a Zenith plant in Springfield, Missouri, were certified for trade adjustment assistance, essentially extended unemployment benefits, because that work was transferred to the Zenith plant in Reynosa and the 61-cent-an-hour labor.

Mr. GUARINI. Let me ask Mr. Beckman or Mr. Gundersheim.

Mr. GUNDERSHEIM. If I could just amplify and make an additional comment to what Mr. Anderson said.

You know, while our greatest fears are in the manufacturing sector, service sector is by no means immune to this. I mean, as you well know, in the Caribbean area, there is a tremendous number of labor intensive service industries that have shifted down there, precisely the same entry level industries that our manufacturing sector provides here for those people without education, without language skills, without a whole lot of sophisticated background and training.

American Airlines does its ticket sorting in the Caribbean. The big food companies do their coupon analysis, or whatever they do, down in the Caribbean. A whole number of service industries, the insurance industry could move most of their processing, data processing down there. So I don't think it is just restricted to the manufacturing sector by any means.

Mr. GUARINI. Right. Well, Mr. Gundersheim, as a shrinking global economy that we have, no place on the earth is too far from the United States. If we don't have this free-trade agreement with Mexico, if people wanted to throw us out and go to other areas where there are low wages, can they not go to the Far East or further away than just Mexico and have their manufacturing base with low taxes, low wages, low tariffs in other countries that are more conducive to cheaper manufacturing?

So, if they want to leave, how would you answer that? They can certainly—they don't have to go to Mexico. There is a whole world out there that they go with cheap labor and cheap taxes and cheap tariffs.

Mr. BECKMAN. If I may, companies are doing that currently. They are currently doing it in Mexico. The question is whether it is advantageous for the United States to set up a specific circumstance where we are encouraging this to happen, and we are giving an incentive for companies to engage in this kind of behavior.

It seems to us that, in fact, the U.S. Government ought to be using its resources and its efforts to strengthen the production base of the U.S. economy rather than encouraging it to move elsewhere.

And that is the basic criticism we have of entering into a free-trade agreement with Mexico or with Latin America is that we need help here.

If the capital that is being generated in this economy is going to be sent to other countries to support production, which then comes back to the United States, where is the capital going to come from that is going to create these new jobs at higher wages using high technology and efficient operating procedures for American workers?

We have been importing a lot of capital from the rest of the world for the last 7 years. That capital is not defined and established as American oriented capital. It can go anywhere in the world, and it is going to go anywhere in the world where its returns are greater. And to the extent that a lot of that is going to go to Europe, within the Community, and to Central and Eastern Europe in the next 10 years, that is not going to come to the United States.

To the extent that economies such as Mexico and Brazil open their markets to foreign capital in ways they have not previously been open, that money is going to go there because there are lucrative markets to produce for in some instances, and they are good production bases for some companies.

That capital is not necessarily going to come here. So where are we going to generate capital for investment in American industries that are going to provide good jobs for American workers. It seems in each of the cases that certainly we are presenting, there are industries, and certainly through the auto industry, that provides good jobs for people.

If we are encouraging the auto industry to diversify its production to other places around the world in order to, I don't know, improve living conditions elsewhere, to make sure that political stability remains in Mexico or other countries, what are we doing for American workers? And it has been a consistent complaint about U.S. trade policy, by the way, for quite awhile. And it seems that it will continue to be a complaint until that policy is changed.

Mr. GUARINI. I thank the gentlemen for their comments.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. Thank you for your testimony.

Section 301 has workers' rights included in its list of criteria used to decide whether a country maintains actionable unfair trading practices. And Mexico has been accused by several segments of U.S. industry of not respecting the value of its workers, especially with regard to condoning cheap labor rates. And yet to date, U.S. industry has not successfully taken action. Have you any idea why not?

Mr. BECKMAN. Let me start off. First of all, low wage rates is not an actionable practice under section 301. So we have no grounds, nor would we wish to pursue a case on that basis.

Whether there are violations of the right to association, to collective bargaining, to child labor, we believe there are instances where these rights are abrogated in Mexico. But there are also very strong national laws and, in fact, constitutional rights in

Mexico regarding the rights of workers. Much stronger than in the United States.

The fact that those rights are generally not respected or not followed to the letter is the responsibility, both of the Government and of the labor movement. And conditions are such in Mexico right now that the economic changes are having a profound effect on workers, and we have been and are watching the impact of these changes on the labor movement on the rights of workers to form organizations to represent their economic interests. And we certainly have considered whether it would be appropriate to file a petition with respect to Mexico on those grounds. We have thus far not found sufficient compelling evidence that a petition would assist in permitting those rights, or expanding those rights in their availability to Mexican workers.

We certainly do believe though that it is the responsibility of the administration to take those rights into consideration in its economic policy toward Mexico. And that does seem to be lacking in the current policy and in the current discussions. And I think there are a variety of situations in Mexico that reflect this, not the least of which is a recent strike at a Ford plant in Cuautitlan, Mexico, where the workers tried to disaffiliate from their union and join a different union.

The company clearly had a preference for which union represented the workers, and the courts, which are dominated by the Government, the party in power, is currently holding up that disaffiliation and reaffiliation. Now, the rights of those workers are, in large part, being abused. Whether this is a pervasive enough pattern we will see I think in the next few months, whether the Government will strongly use its powers to prevent workers from joining organizations of their choosing.

At this point, the Government's activities on its own have not warranted our taking such action.

Mr. **Gundersheim**. Mr. Crane, if I could answer your question quite differently.

The same provision exists in the law governing GSP, and in both instances the discretion really stands with the administration. And our experience with that has been basically a disaster. We have no faith in decisions being made on any rational or reasonable basis.

We put in a large number—the labor movement has put in a large number of petitions asking that GSP privileges be removed from a number of countries that abuse labor and human rights. Only a very small minority of those petitions have been acted on favorably. They have been only countries where the trade consequences have been absolutely minuscule and had no effect really.

And so, quite frankly, until we see a different philosophy in principles that govern the administration and its trade policy, we see no point in initiating such petitions.

Mr. **Crane**. Mr. Anderson.

Mr. **Anderson**. I think the question of standards, Mr. Crane, is one that is central to the kind of negotiations and discussions that ought to take place between the United States and Mexico.

We do not believe that it is necessary to start that discussion with Mexico in an accusatory fashion because of violations of labor standards or rights.

If negotiations do go forward, we would hope that the whole question standard setting be a central part of any discussion. And I think that would also be most helpful to Mexico.

Mr. **Crane**. Thank you very much, gentlemen. Thank you, Mr. Chairman.

Mr. **Guarini** [presiding]. Mr. Richardson.

Mr. **Richardson**. Thank you. Mr. Chairman, I am going to be very brief. But I am a little bit concerned about the tenor of Mr. Beckman and President Sheinkman's remarks. And I say this with my long and very positive association with labor.

And I say it—I don't have any objections to you gentlemen objecting to this trade agreement on grounds of jobs and protecting American workers. But I do detect in both of you statements such as, Mr. Beckman, you mentioned the inherent lack of stability and lack of—I guess the word is legitimacy of the President of Mexico. And I didn't know, first of all, the UAW had a foreign affairs department.

I deeply resent the fact that you were basically saying, both you and Mr. Sheinkman, little insinuations that, well, it's OK, because with Canada there is no instability. But with Mexico and Latin American countries, there is, and we have to be more vigilant.

Mr. Sheinkman, you mentioned here that greedy businessmen have taken $50 billion of the $100 billion debt. I mean I would like to see some of the documentation for that. You know, there is corruption everywhere. We have a savings and loan scandal in this country.

So what I would implore to both of you is I think stick to the jobs issue, stick to your areas. But I resent as an American of Hispanic origin the implication that Mexicans and Latin Americans cannot handle their own internal affairs. Therefore, with Canada and Israel and others, it is OK, but with Latins perhaps, with Mexicans, we should be a little more vigilant. And I detected that in both of you.

And if I am mistaken, I would hope that you would refute that. Because there is no place for this kind of argument in this debate.

I think perhaps in some of the concerns relating to American workers, displacement, you might have some valid concerns that may have to be negotiated. But to comment and say that the President of Mexico right now enjoying huge popularity, bold, probably the most effective leader they have had in a long time, the relationship is the best that it could, for you to just throw those dampers out, to me is disappointing and unacceptable.

Mr. **Beckman**. Well, on my own behalf, and certainly on behalf of President Bieber of the UAW, I am upset, and certainly regret that you have that impression from this statement.

Our concern is not with Mexico or Latin American governments in general. Our concern is with an electoral process. And certainly there are sufficient newspaper accounts within Mexico and outside Mexico that discuss the vote that took place in 1988 and to discuss the elections that have taken place since.

And while the UAW does not have a foreign affairs department, we do not certainly pretend to determine for the United States what our overall foreign policy ought to be.

We are concerned when Mexican citizens are dying in protest over election procedures. We do strongly believe in democratic processes. And we do not deny that President Salinas is the President of Mexico, and that the United States in all of its dealings must and should deal with the Mexican Government, and President Salinas is the head of that Government. We are concerned about the process of political—of the way workers and individuals are able to voice their political concerns within the country.

And I certainly had no intention of picking on or singling out a country in a particular region of the world. I simply used Canada as an example because that is the last country with which we negotiated a free-trade agreement. And if there has been—well, I suppose one could point to the constitutional difficulties facing Canada now as an indication of similar political instability. But the electoral process in Canada has not been questioned by Canadians in the same way that the political process in Mexico has been questioned by Mexicans.

And I have not heard similar complaints about the elections that have taken place in Brazil and other countries. And so my comments with respect to that situation with Mexico could not apply to those. But I agree that our primary focus in discussion of the free-trade agreement will be on the economic issues for American workers, but also for the economic implications for Mexican workers.

We have a long history of cooperation and coordination with workers in other countries, as our international economic policy and domestic economic policy affects them. And we will continue in those discussions with workers in other countries, and we hope that that will include workers in Mexico in a deeper and broader way than has been the case in the past.

So I take your concern to heart, and will certainly eliminate any implication in that regard in the future.

Thank you.

Mr. GUNDERSHEIM. Mr. Richardson, I think you totally misunderstand our comment. It had to do with questions of how do you get economic development. That $50 billion is not our number. It is the number of Manufacturers Hanover Bank that simply said that that is the amount of capital in private bank accounts that left Mexico and was not used for the economic development and for the betterment of standard of living of Mexico. That was the only point I'm trying to make.

And to relate it to the free trade and our enhanced economic relationship with Mexico, our point is we quite frankly think the Mexicans are perfectly capable of handling their own affairs and would love to see. In fact, our union has helped work with the Mexican unions and work with other Mexican institutions to try and enhance their economic development.

My only point in that comment is that automatically, by giving assistance or money arriving in the country, does not lead to its economic enhancement; that there are situations where necessarily people have taken advantage of the situation. And we find that tragic. That is all.

Chairman GIBBONS. Well, at that point we have got a vote on. Maybe we had better call it quits.

And, Mr. Anderson, your statement had some interesting exhibits attached to it, and without objection we will include those in the record also.

Mr. **Anderson**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you very much for coming. And we will be back in just a moment.

[Recess.]

Chairman **Gibbons**. Well, let's resume, please.

The chairman of the Ways and Means Committee has asked me to wind this up by 2 o'clock. And I don't dare disappoint him. He has got something on his schedule that is important to all of us.

So the next panel will consist of the Coalition for North American Trade and Investment, with our old friend and good friend, the Honorable Charles A. Vanik, who formerly distinguished himself as chairman of this subcommittee; United States-Mexico Chamber of Commerce, Mr. Van Heuven; and the U.S. Counsel of the Mexico-U.S. Business Committee, Mr. Flower. And that is it.

And we are glad to have you here and, Charlie, welcome again. You are a fine friend, and you may proceed as you wish.

STATEMENT OF HON. CHARLES A. VANIK, COUNSEL, COALITION FOR NORTH AMERICAN TRADE AND INVESTMENT, ACCOMPANIED BY PAUL E. SUPLIZIO, DIRECTOR

Mr. **Vanik**. I just like to come back every once in awhile and join the living. [Laughter.]

Chairman **Gibbons**. You sure we are living?

Mr. **Vanik**. Well, you are living in a manner of speaking.

Chairman **Gibbons**. Well, you look like you are living too.

Mr. **Vanik**. Our manner is pretty good too.

Mr. Chairman, I am Charles Vanik, counsel of the Coalition for North American Trade and Investment. The coalition supports the emergence of a North American free trade area spanning the United States, Canada, Mexico, and the Caribbean nations. I am accompanied by Paul Suplizio who is the director of our coalition.

First of all, I want to acknowledge my good friends of American labor who feel threatened by the possibility of a continental free-trade area and the fear of increased labor competition.

The competition is not only a continental force. It is a global force, as we all know. And I think it is essential for North America to develop the strength to compete globally with the Pacific and with the strength of the European Common Market and Eastern Europe.

In order to compete globally, America will need a broad complex of labor skills ranging from the unskilled to the sophisticated. We need a source of labor to support an increasing force of sophisticated skills which I think are the hope of our survival.

Before 1981, and as your predecessor as chairman of this subcommittee, I conducted three field missions to the Mexican border. I came away convinced that we should support the maquiladora program, and eventually a free-trade area uniting our two countries. Mexico is a country of 85 million people containing 20 percent of the entire population of Latin America, and accounting for nearly a quarter of Latin America's gross domestic product.

As first, I was apprehensive of this program. I came from an industrial area in Ohio, as you know. The job base in my home community was shrinking for many causes. Many in labor blamed it on the maquiladora program and the drift of many of our industrial activities to Mexico.

My investigations at that time convinced me that such programs were good for America. I visited the plants on both sides of the border, providing job and business opportunities to both nations. I witnessed the huge spending of the maquiladora dollars on the American side of the border. Dollars spent in America are just as green as dollars earned in America.

At that time, I had many Ohio industries who operated plants at the border. They told me that they found the Mexican assembly of component parts more satisfactory than offshore production in Pacific Rim countries.

Mr. Chairman, today, more and more corporations are looking at the border programs as necessary to growth and survival. I have talked to many corporate leaders who have a large base of activity in America. They say they must have a certain productive potential in Mexico or offshore. Many have told me that, in order to maintain as much as 80 percent of their total employment in the United States, they have to do at least 20 percent at the border. We are interdependent. It is no longer realistic to expect or demand that all labor operations be conducted in the United States. The catchwords, "improving competitiveness," imply the development of a wider base of corporate productivity that follows market realities to produce the best at the lowest cost.

If a source of energy, raw materials, and labor resources are required to increase the productivity of American companies, what place is better than either Canada at our northern border, or Mexico at the southern? We have in the making today a continental production machine which is rapidly moving toward full integration, efficiently using the best resources and labor from the combined area to compete in world markets. We complement each other without compromising our individual cultures or sovereignty.

American has a great stake in our mutual prosperity and success of the Mexican economy. A Chinese wall would provide no protection to either nation. We need to develop more access to each other.

The interdependence of our manufacturing sectors is striking. In 1987, Mexican nonoil exports to the United States were $10.5 billion. Of this amount, $8.5 billion, or 80 percent, came from the maquiladoras where 50 percent of the product value consists of U.S. components and 50 percent Mexican labor and services.

We are interdependent in many other ways. The market is there for us to stretch into. As the Mexican economy prospers and grows, the pressures on illegal immigration will be reduced, and the stability of the Mexican economy and the opportunities of the free enterprise system will be maintained. Our busy commercial border is infinitely less expensive than the cost of a military defended border which would cost billions of dollars on each side.

The trade regime created by the maquiladora and the chapter 98 programs constitute a reciprocal extension of trade preferences and the beginning of a free-trade area in which products are jointly produced from U.S. components and Mexican labor. This excellent beginning gives the United States and Mexican Governments a base on which we can build a broad and comprehensive free-trade relationship, covering both trade and investment and uniting our two markets.

We should not only be asking, "What's the impact of a free-trade agreement on U.S. jobs? What kind of jobs do we want to establish and keep in this country to sustain a rising standard of living?" The key to an abundance of high wage jobs is to maintain technological leadership, develop the best educated and the most efficient work force, and invest worldwide to stay competitive.

The true source of job security is a profitmaking sector. A firm that makes profits can accumulate capital and make the investments needed to sustain the more productive, better paying high skill jobs that yield a rising standard of living. Such investments must yield an adequate return that that can only be sustained by being cost and quality competitive in the marketplace.

From the experience of my past, I have become aware of the problems of American labor, which must be concerned about every job that is lost. However, we must recognize that economic forces make it impossible to ensure the security of every job in the country. Nor do we want the static closed economy that would imply. Our goal should be directed toward creating and preserving as many jobs as we can in those skills that will sustain a high and rising standard of living.

A competitive firm is a growing firm that is a better customer for its suppliers. It is able to undertake research and development, bring new products to market and invest in the latest technology. These processes can generate new jobs, as well as the high value added products that obtain the best terms of trade internationally.

Mr. Chairman, in today's international economy, trade follows investment. That is the lesson of our investments on the Mexican border. And similar investment will drive future trade with Eastern Europe and the U.S.S.R. as well. Direct investment helps jumpstart demand and productivity growth, raising incomes and expanding markets. The Salinas investment decree of 1989 was a big step in opening up more attractive investment opportunities.

One of the principal goals of free-trade negotiations should be to demonstrate to our Mexican friends the wisdom of allowing much less restrictive flow of capital between our countries. Canada's large capital imports and resulting strong currency are a model of what can be achieved with a favorable investment climate.

Should Americans fear the export of capital to our neighbors? One-fifth of our manufacturing of investment is now in facilities abroad. About 14 percent of the output is exported back to the United States, and the remainder sold in foreign markets. This is far from threatening our industrial base. Such investment accumulates the profits needed to modernize our manufacturing facilities at home.

Our country has limited capital resources. It cannot afford to sink them into facilities that cannot compete. We prefer that that businesses invest in modern plants at home and gain cost-cutting competitiveness through high productivity. But for some forms of production, even the most modern plants won't be able to match foreign costs. United States investment in Mexico that would be spurred by a free-trade agreement would raise wages and productivity there making Mexico's 85 million citizens a better market for our exports. It should also add to the profits and the competitiveness of our own industries.

Capital will of necessity flow to production sites which offer a greater return on investment. Achieving a relative free flow of capital between the United States and Mexico should be a prime objective of a free-trade agreement.

While Mexico is thought of as a capital poor country, we should not forget there is $40 to $80 billion of flight capital parked offshore. United States direct investment in Mexico under a free-trade agreement would be a great boon to that country in terms of restored confidence and the return of that flight capital. It would propel growth and raise wages, making Mexico a better market for our goods and machinery and help that country pay its way by selling more to us.

In conclusion, Mr. Chairman, negotiation of a free-trade agreement will not be easy. There are differences between our economies, but there is a way to do it. This committee, I think, has a unique capacity for projecting the way to do it because we have established in this committee a precedent of phasing in these situations. What you do with a free-trade agreement is phase it in, doing what you can do at once, and gradually realizing a change in the trade regime. In other words, we will move in steps to a full free trade basis.

In that way, I think we eliminate some of the very serious problems. It lets us feel how the operation is going as we move it. The important thing is that we have a schedule of change. I think business, labor, and industry can adjust to anything if they know what the rules are and if they know what the schedule is. If we can schedule this movement into a free-trade relationship, I think it will save a great deal of effort on each side, and probably alleviate some of the costly expedients that are discussed frequently here, such as a trade adjustment assistance program.

I think that a gradualized step-by-step movement into a free-trade area will help ease the transition and eliminate the costly demand for adjustment assistance which is very difficult to finance.

Mr. Chairman, that concludes my remarks. I want to take this opportunity while I am here to introduce my next associate. Mr. Van Heuven and I were people who met many years ago at the maquiladora border, and he was with me on several of our missions to Mexico during that time. So I am proud that Mr. Van Heuven is still on the scene fighting for the cause.

[The statement and attachments of Mr. Vanik follow:]

STATEMENT OF
CHARLES A. VANIK
COUNSEL
COALTITION FOR NORTH AMERICAN TRADE AND INVESTMENT

Mr. Chairman and Members of the Subcommittee:

I am Charles A. Vanik, counsel to the Coalition for North American Trade and Investment. The Coalition supports emergence of a North American Free Trade Area spanning the U.S., Canada, Mexico, and the Caribbean nations. I am accompanied by Paul E. Suplizio, director of the Coalition.

First of all, I want to commend this Subcommittee for conducting this hearing. Before 1981, as Chairman of the Ways and Means Subcommittee on Trade, I conducted three field missions to the Mexican border. I came away convinced that we should support the maquiladora program and an eventual free trade area uniting our two countries. Mexico is a country of 85 million people, containing 20 percent of the entire population of Latin America and accounting for nearly a quarter of Latin America's gross domestic product (Table 1).

At first, I was apprehensive of the maquiladora program. I came from an industrial area in Ohio. The job base in my home community was shrinking for many causes. Many in labor blamed it in part on the maquiladora program and the drift of many of our industrial activities to Mexico.

My investigations at that time convinced me that such programs were good for America. I visited the plants on both sides of the border, providing job and business opportunities to both nations. I witnessed the huge spending of maquiladora dollars on the American side of the border -- dollars spent in America are just as green as dollars earned in America. At that time, I had many Ohio industries who operated plants at the border. They told me that they found the Mexican assembly of component parts more satisfactory than offshore production in Pacific Rim countries.

Mexico And The U.S. Are Interdependent Equals

Today, more and more American corporations are looking at the border programs as necessary to growth and survival. I have talked to many corporate leaders who have a large base of activity in America, but must have a certain percentage of production in Mexico or offshore. Many have told me that, in order to maintain 80% of their total employment in American manufacturing, they must do at least 20% at the Mexican border. Jobs in America depend in a considerable degree on jobs in Mexico. We are interdependent. It is no longer realistic to expect or demand that all labor operations should be conducted in America. The catchwords, "improving competitiveness," imply the development of a wider base of corporate productivity that follows the market realities to produce the best at the lowest cost.

If a source of energy, raw materials, and labor resources is required to increase the productivity of American companies, what place is better than either Canada at our northern border or Mexico at the southern? We have in the making today a continental production machine which is rapidly moving toward full integration, efficiently using the best resources and labor from the combined area to compete in the world markets. We complement each other without compromising our individual cultures or sovereignty. We are interdependent equals.

America has the greatest stake in prosperity and success of the Mexican economy. Our mutual border is the first line of defense for the free enterprise system in which we share belief. A Chinese wall between our nations would afford no protection to either nation. We need more bridges, more highways, more access to each other. Our bilateral trade must grow. Mexico is our fifth biggest supplier of $25 billion in goods last year. While there is a significant gap between our exports and purchases, the fact remains that Mexico is our third best market in the world!

The interdependence of our manufacturing sectors is striking. In 1987, Mexican non-oil exports to the U.S. were $10.5 billion (Table 2). Of this amount, $8.5 billion or 80% came from maquiladora plants where 50% of the product value consists of U.S. components and 50% Mexican labor and services. We are interdependent in other ways. Recent developments have made Mexico the greenhouse for American winter fruits and vegetables. America needs a frost-free alternative source of winter produce to supplement Florida and Southern California. The market can easily consume the entire production of all these places for the benefit of the changing American diet.

As the Mexican economy prospers and grows, the pressures on illegal immigration will be reduced. The stability of the Mexican economy and the opportunities of the free enterprise system will be maintained. Our busy commercial border is infinitely less expensive than the cost of a military defended border which would cost billions of dollars on each side.

The trade regime created by the maquiladora and Chapter 98 programs constitute a reciprocal extension of trade preferences and the beginning of a free trade area in which products are jointly produced from U.S. components and Mexican labor. This excellent beginning gives the U.S. and Mexican governments a base on which we can build a broad and comprehensive free trade relationship, covering both trade and investment and uniting our two markets.

The extent to which U.S. imports of maquiladora products find their way into U.S. exports of finished goods is not known, but the amount is believed to be significant. For example, U.S. high technology exports comprise about 30% of U.S. manufactured exports, according to the Joint Economic Committee. Nearly 25% of maquiladora plants are engaged in the production of electronic components, and it is certain that some of this production enters into U.S. goods sold abroad. The same is probably true for apparel and transportation equipment.

What Kinds Of Jobs Do We Want to Secure?

We should not only be asking, "What's the impact of a free trade agreement on U.S. jobs?", but "What kind of jobs do we want to keep in this country to sustain a rising standard of living?" The key to an abundance of high-wage jobs is to maintain technological leadership, develop the best-educated workforce, and invest worldwide to stay competitive.

The true source of job security is a profit-making firm. A firm that's making profits can accumulate capital and make the investments needed to sustain the more productive, better paying, high-skill jobs that yield a rising standard of living. Such investments must yield an adequate return that can only be sustained by being cost and quality competitive in the marketplace.

From the experience of my past, I have become aware of the problems of American labor which must be concerned about every job lost. However, we must recognize that economic forces in the world make it difficult, if not impossible, to ensure the security of every job in the country. Our goal should be directed toward preserving as many jobs as we can in those skills that will sustain a high and rising standard of living. In today's swirl, we may lose all if we try to save all.

A competitive firm is a growing firm that's a better customer for its suppliers. It's able to undertake research and development, bring new products to market, and invest in the latest production technology. These processes can generate new jobs as well as the high value-added products that obtain the best terms of trade internationally.

Third-Country Investment In A North American FTA

There are other countries who challenge America in the Mexican markets. Japanese delegations, in particular, have been active in the maquiladora area. Their government organization, MITI, can target capital expenditures in a way unmatched in the world. America and Japan and other nations are investing in Mexico for different reasons. American business is there to fortify their productivity and the profitability of their industries in America. It has become strategically necessary. The Japanese and others investing in Mexico are there primarily for access to the lucrative American markets through the Mexican door. Nevertheless, America accounts for more than 60 percent of foreign direct investment in Mexico (Table 3), and Japanese investment is still relatively small.

With respect to third-country investment, both the U.S. and Mexico should welcome this prospect which will transfer technology, spur economic growth, and raise the living standards of the Mexican people. However, foreign investment regulations containing "export performance requirements" are obviously unfair, and are considered so by the U.S. government. Under such rules, Mexico could reap the benefits of a large influx of foreign capital while exporting unemployment to the U.S. and creating redundant productive facilities in North America. Such behavior would be inconsistent with a free trade arrangement, and this is why a further liberalization of investment regulations should be part of any free trade agreement.

Allowing third-country components to be processed in Mexican plants, stamped "Made in Mexico", and exported to the U.S. while our trade problems continue, would not be conducive to working out our differences. Careful attention must therefore be given to the rule of origin for a U.S.-Mexico free trade area.

A More Liberal Investment Regime Is Imperative For An FTA To Truly Benefit Both Nations

In today's international economy, trade follows investment. That is the lesson of our investments on the Mexican border, and similar investment will drive future trade with Eastern Europe and the USSR as well. Direct investment helps jump-start demand and productivity growth, raising incomes and expanding markets. The Salinas investment decree of 1989 was a big step in opening up more attractive investment opportunities, but one of the principal goals of free trade negotiations should be to demonstrate to our Mexican friends the wisdom of allowing much less restrictive flow of capital between our two countries. Canada's large capital imports and resulting strong currency are a model of what can be achieved with a favorable investment climate.

Should Americans fear the export of capital to our neighbor? One-fifth of our manufacturing investment is now in facilities abroad. About 14 percent of the output is exported back to the U.S., and the remainder sold in foreign markets (Table 4). Far from threatening our industrial base, such investment accumulates the profits needed to modernize our manufacturing facilities at home.

Our nation has only limited capital resources. It can't afford to sink them into facilities that can't compete. We prefer that businesses invest in modern plants at home and gain cost-competitiveness through high productivity. But for some forms of production, even the most modern plants won't be able to match foreign costs. U.S. Investment in Mexico that would be spurred by a free trade agreement would raise wages and productivity there, making Mexico with its 85 million citizens a better market for our exports. It would also add to the profits and competitiveness of our producers.

Americans aren't unfamiliar with this process; we've watched it proceed domestically for a hundred years. When the textile industry migrated south to stay competitive, the regions that gained and lost were entirely within our borders. Today the process is the same, only the location of investment is more often abroad.

In a recent study for the National Bureau of Economic Research, Robert E. Lipsey and Irving B. Kravis evaluated the comparative advantage of the U.S. as a production site versus the comparative advantage of U.S. multinational firms who produce at home and abroad. They found that the U.S. as a production site had lost competitiveness during the past two decades, while U.S. multinationals had maintained their competitiveness when all their operations, including majority-owned foreign affiliates, are considered.

Lipsey and Kravis found that the United States share of world exports of manufactures fell from 21 to 14 percent during the 20 years ending in 1983, but at the same time the share of world exports held by U.S. multinational firms (defined by the Commerce Department as firms with a 10 percent or greater equity interest in a foreign affiliate) remained stable at 17 percent of world exports. What happened was that when the multinational parents' exports from this country fell, exports from their majority-owned foreign affiliates rose to offset the loss. Today, about half of U.S. multinationals' share of world exports come from the U.S. and about half from their affiliates abroad.[1]

[1] Robert E. Lipsey and Irving B. Kravis, The Competitiveness and Comparative Advantage of U.S. Multinationals, 1957-1987, National Bureau of Economic Research Working Paper No. 2051, October 1986.

Another NBER study found that, in Mexico, the productivity of local firms over time converged with that of multinationals and both the rate of productivity growth of Mexican industries and Mexico's rate of convergence to the U.S. were higher in industries with a greater presence of multinationals. This result stemmed from the diffusion of technology to Mexico's manufacturing sector.[2]

Capital will of necessity flow to production sites which offer a greater return on investment. Achieving a relatively free flow of capital between the U.S. and Mexico should be a prime objective of a free trade agreement. While Mexico is thought of as a capital poor country, we should not forget that $40-$80 billion of flight capital is parked offshore. U.S. direct investment in Mexico under an FTA would be a great boon to that country in terms of restored confidence and return of flight capital. It would propel growth and raise incomes, making Mexico a better market for our own goods. But if we wish to develop markets in Mexico and sell more capital goods and machinery there, our neighbor must pay its way by selling more to us. Access for Mexican goods to the U.S. market is essential for both countries to prosper.

A Difficult Task, A Strategic Opportunity

In conclusion, negotiation of a free trade agreement will not be easy. There are vast differences between our two economies. Mexico has much greater inequality of income distribution (Table 5), and considerable potential for social conflict. About 29 percent of the Mexican population lives in poverty, compared to 13 percent here (Table 6). Wage scales are far apart. Labor and business on both sides of the border have potent fears of a more open market. But both nations have too much at stake to miss this strategic opportunity.

We must not lose sight of the fact that the Mexican government has only recently begun to liberate its economic policies and open the Mexican economy up to foreign investment and the competitive forces of the world market. We should develop a relationship which results in a continental preference, open to the world economy. Our policies should aim to assist our neighbor to stay the course, as investment-led growth offers the best hope for a rejuvenated economy and the benefits of a North American market.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions.

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[2] Magnus Bloomstrom and Edward N. Wolff, Multinational Corporations and Productivity Covergence in Mexico, NBER Working Paper No. 3141, October 1989.

Coalition for North American Trade
and
Investment

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Rockwell International Corporation
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Kenner Parker Toys, Inc.
The Pillsbury Company
Ranco, Inc.
Parker Hannifin Corp.
Pulse Engineering Inc.
Qualteck Electronics Inc.
Foster Grant Corporation
State Government of Sonora, Mexico
Association de Maquiladoras de Chihuahua
Grupo Chihuahuense de Desarrollo
Desarrollo Economico del Estado De Chihuahua
Seatt Corporation
Gels, Inc.
Advanced Custom Molders, Inc.
Franklin Fire & Safety
Silor Optical
Maufacturas y Reillas Mexico S.A. De C.V.
A.O. Smith Water Products Company

The foregoing is a list of current Coalition members. Non-members wishing to join the Coalition should contact Charles Vanik at 202-626-6646 or Paul Suplizio at 703-931-0104.

The Coalition for North American Trade and Investment was organized in 1986 to advocate the legislative interests of industries participating in the Mexican maquiladora program, which had come under attack in Congress. The Coalition supports the maquiladora program, Chapter 98 provisions of the Harmonized Code, and the emergence of a North American Free Trade Area, embracing Mexico, Canada, the U.S. and the Caribbean nations.

Table 1 : Per Capita Gross Domestic Output and Growth Rates of Latin American Countries[a]
(percent and dollars of 1975)

	Share in Total Population (percent)	Share in Regional GDP (percent)		GDP per Capita Dollars of 1975		Growth Rate of GDP per Capita (percent per year)	
	1980	1950	1980	1950	1980	1950-80	1980-88[d]
Brazil	35.6	22.2	34.2	637	2,152	4.2	0.2
Mexico	20.2	18.5	23.1	1,055	2,547	3.0	-1.3
Argentina	8.0	21.2	11.8	1,877	3,209	1.8	-1.9
Colombia	7.5	7.2	6.3	949	1,882	2.3	1.4
Venezuela	4.3	7.2	7.1	1,811	3,647[e](3,310[f])	2.4[e](1.5[f])	-1.8
Peru	5.1	4.9	3.9	953	1,746	2.1	-1.7
Chile	3.2	5.7	3.4	1,416	2,372	1.8	0.2
Uruguay	0.8	3.1	1.2	2,184	3,269	1.4	-1.2
Ecuador	2.3	1.4	1.6	638	1,556	3.1	-0.9
Guatemala	2.0	1.6	1.2	842	1,422	1.8	-2.4
Dominican Rep.	1.7	1.1	1.1	719	1,564	2.6	0.2
Bolivia	1.6	1.4	0.8	762	1,114	1.3	-3.3
El Salvador	1.3	0.8	0.5	612	899	1.3	-1.9
Paraguay	0.9	0.8	0.7	885	1,753	2.4	-0.4
Costa Rica	0.6	0.5	0.6	819	2,170	3.3	-1.1
Panama	0.5	0.5	0.5	928	2,157	2.9	-3.0
Nicaragua	0.7	0.5	0.4	683	1,324	2.3	-3.4
Honduras	1.0	0.6	0.4	680	1,031	1.4	-1.8
Haiti	1.6	0.8	0.2	363c	439	0.7	0.0
Latin America[b]						3.0[e](2.7[f])	-1.4

[a] Countries ordered by average share in regional GDP between 1950 and 1985;
[b] Latin America except Cuba; [c] 1960; [d] preliminary;
[e] Venezuela data adjusted for changes in the terms of trade; [f] Venezuela data not adjusted for changes in the terms of trade.

Note: The growth rate of Venezuela's per capita GDP between 1950 and 1980 is 1.9 percent per year in IMF: IFS. For Chile and Honduras, the average growth rate per capita per year from Summers and Heston is 0.004 higher than in IMF: IFS, and for Nicaragua it is almost 0.01 larger. The average for Latin America is practically unaffected by the growth rates of Honduras and Nicaragua due to their small share in the population of the region.

Sources: Robert Summers and Alan Heston, "Improved International Comparisons of Real Product and its Composition: 1950-1980," Review of Income and Wealth, June 1984; and ECLA, Preliminary overview of the Latin American Economy, 1988.

Source: Eliana Cardoso and Albert Fishlow, Latin American Economic Development: 1950-1980, National Bureau of Economic Research Working Paper No.3161, November 1989

TABLE 2 U.S.-MEXICAN BILATERAL TRADE
($ MILLIONS)

	Mexican Exports		Mexican Imports	Trade Balance
	Total	Non-oil		
1971	911	911	1,478	-507
1972	1,118	1,118	1,722	-604
1973	1,318	1,318	2,277	-959
1974	1,703	1,671	3,779	-2,076
1975	1,668	1,330	4,108	-2,440
1976	2,111	1,693	3,790	-1,689
1977	2,738	1,882	3,660	-822
1978	4,057	2,495	4,628	-571
1979	6,252	3,085	7,540	-1,288
1980	9,982	3,501	12,155	-2,173
1981	10,530	4,121	15,859	-5,330
1982	11,116	3,834	8,909	2,207
1983	12,973	4,186	4,921	8,052
1984	14,125	5,475	7,388	6,737
1985	13,146	5,187	8,907	4,239
1986	10,603	8,068	7,392	3,211
1987[a]	13,326	10,500[b]	7,878	5,448

Note: Bilateral trade includes Mexican exports to and imports from the U.S.

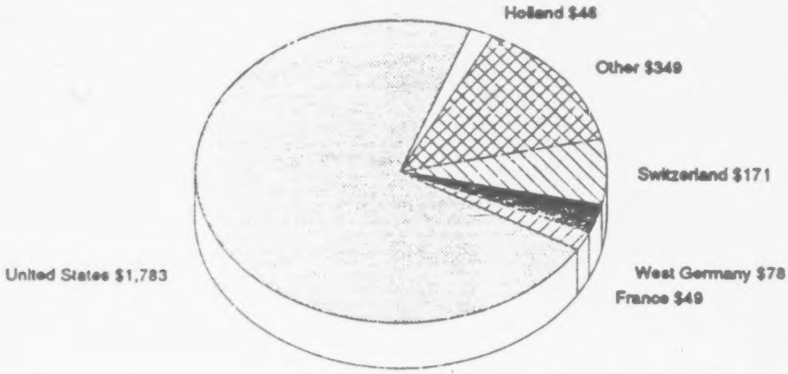
[a] Provisional.

[b] Estimated.

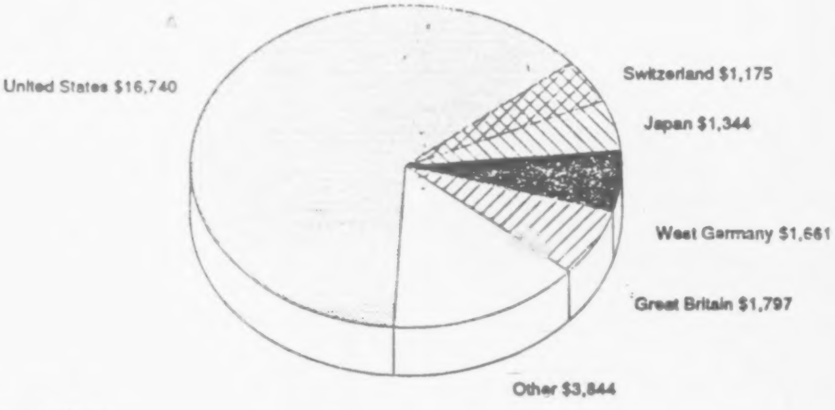
SOURCE: Ministry of Commerce, Mexico.

TABLE 3

New foreign direct investment in Mexico, by country of origin, 1989 (In millions of U.S. dollars)



Accumulated foreign direct investment in Mexico, by country of origin, as of end of 1989 (In millions of U.S. dollars)



Source: SECOFI

TABLE 4

Exports to the United States as Percentage of Sales, Majority-Owned Affiliates, by Industry

	1957	1966	1977	1982	1983	1984
All industries	9.9[a]	6.4	18.5	10.5	10.9	12.4
Agriculture, forestry, fishing	38.2	n.a.	30.1	40.7	39.7	39.1
Mining	44.2	37.9	28.1	28.5	30.9	32.3
Petroleum	9.9	5.4	35.7	13.7	12.4	13.5
Extraction	n.a.	n.a.	36.0	40.1	35.7	31.4
Other, incl. oil field services	n.a.	n.a.	35.7	8.3	7.3	8.5
Manufacturing	6.0	5.6	9.1	9.7	11.6	14.0
Construction	n.a.	n.a.	.7	.3	.3	.4
Public utilities and transportation	n.a.	7.4	.6	6.4	3.2	4.2
Trade	n.a.	3.6	2.9	4.3	5.0	5.3
Wholesale	n.a.	n.a.	3.4	4.8	5.7	6.1
Retail	n.a.	n.a.	.2	.2	.5	.2
Finance, insurance, and real estate (excl. banking)	n.a.	n.a.	5.9	23.0	25.3	25.5
Services	n.a.	n.a.	4.2	5.4	5.3	6.0

Source: Appendix, table 8.A.7.

[a] Excluding trade and finance.

Source: Robert E. Lipsey, Mario Schimberni, and Robert V. Lindsay, Changing Patterns of International Investment in and by the United States, NBER Reprint No. 1027, 1988

TABLE 5

INCOME DISTRIBUTION, LATIN AMERICA AND EAST ASIA

	Quintiles lowest	highest	Ratio
		Latin America	
Argentina	4.4	50.3	11.43
Brazil	2.0	66.6	33.30
Chile	4.5	51.3	11.40
Colombia	2.8	59.4	21.21
Costa Rica	3.3	54.8	16.61
Ecuador	1.8	72.0	40.00
Mexico	4.2	63.2	15.05
Panama	2.0	61.8	30.99
Peru	1.9	61.0	32.11
Trin&Tob	4.2	50.0	11.90
Uruguay	4.4	47.5	10.80
Venezuela	3.0	54.0	18.00
Average	3.2	57.7	21.1
		East Asia	
China	7.0	39.0	5.57
Hong Kong	6.0	49.0	8.17
Indonesia	6.6	49.4	7.48
Korea	6.5	45.2	6.95
Malaysia	3.5	56.0	16.00
Philippines	3.9	53.0	13.59
Singapore	6.5	49.2	7.57
Taiwan	8.8	37.2	4.23
Thailand	5.6	49.8	8.89
Average	6.0	47.5	8.7

Source: Jeffrey D. Sachs, Social Conflict and Populist Policies in Latin America, NBER Working Paper No. 2897, March 1989

TABLE 6

Incidence of Poverty in Latin America
1970- 1981

	1970		1981	
	Head Count[a]	Poverty Gap[b]	Head Count[a]	Poverty Gap[b]
Argentina	8.0	0.5	8.0	0.5
Brazil	49.0	8.2	43.0	4.2
Chile	17.0	1.9	16.0	1.6
Colombia	45.0	7.7	43.0	5.3
Costa Rica	24.0	3.6	22.0	2.7
Honduras	65.0	23.1	64.0	21.8
Mexico	34.0	3.9	29.0	2.6
Panama	39.0	6.8	37.0	5.7
Peru	50.0	13.4	49.0	12.8
Venezuela	25.0	2.8	24.0	3.6
All 10	39.0	5.3	35.0	3.6

[a] Percent of population below the poverty line.
[b] Shortfall of the average income of the poor from the poverty line as a proportion of GDP.

Source: Sergio Molina, "Poverty: Description and Analysis of Policies for Overcoming It," *CEPAL Review*, no.18, December 1982.

Source: Eliana Cardoso and Albert Fishlow, *Latin American Economic Development: 1950-198*
NBER Working Paper No. 3161, November 1989

Chairman GIBBONS. Good. That is better.

Mr. Van Heuven.

STATEMENT OF GERARD J. VAN HEUVEN, EXECUTIVE VICE PRESIDENT, UNITED STATES-MEXICO CHAMBER OF COMMERCE

Mr. VAN HEUVEN. Thank you very much, Charlie. And Mr. Chairman, as Chairman Vanik mentioned, he made three field trips to Mexico. One of those was with the United States-Mexico Chamber. And on behalf of the chamber, I would like to invite you to Mexico and your committee to see what has happened in the first 500 days of the Salinas administration.

As you know, Mr. Chairman, I——

Mr. VANIK. I might tell you on one of my visits, Mr. Chairman, he arranged for an earthquake. [Laughter.]

Chairman GIBBONS. You probably brought the earthquake with you, Charlie. [Laughter.]

Mr. VAN HEUVEN. I would agree, Mr. Chairman.

As you are aware, the United States-Mexico Chamber of Commerce is a binational organization. We represent most of the U.S. companies operating in Mexico, and a majority of those Mexican companies trading with the United States.

With your permission, Mr. Chairman, I would like to summarize my statement with 7 points.

Chairman GIBBONS. Certainly. It will all be in the record. Go right ahead.

Mr. VAN HEUVEN. The first of the seven points is the bilateral relationship. Mr. Chairman, Mexico is not only one of the most important bilateral relationships of the United States, but also the most complex, sensitive and misunderstood, deserving greater attention from the United States.

In my 15 years of experience, many aspects of the relationship are worthy of greater exploration. To conserve the committee's time, I will not dwell on the details of my views of the nature of the United States-Mexico relationship, but will be happy to meet with any members at a later date and do so.

Second, the free-trade agreement. The United States-Mexico Chamber of Commerce supports an FTA for the United States and Mexico. We urge that the existing mechanisms, the two bilateral understandings be used, namely, one, the 1987 framework understanding that was a catalyst and improved United States-Mexican bilateral relations. And, two, the 1989 consultative understanding regarding trade investment talks which created a parallel mechanism for sectors specific and cross-sectoral negotiations.

We recommend full attention turn to the FTA following successful completion of the Uruguay round.

We also expect the eventual long-term development of a North American free-trade area, including all three countries, Mexico, Canada, and the United States.

As you may well know, Mr. Chairman, 20 percent of the top 100 corporations operating in Canada are subsidiaries of U.S. firms. The business community sees the markets as interconnected. The governmental recognition we expect to follow eventually.

With this evolution in mind, the United States-Mexico Chamber of Commerce of today could eventually become the North American Chamber of Commerce of tomorrow.

From where I sit, and what I hear from our member companies on both sides of the border, this is no longer an academic hypothetical but a realizable objective.

Three, gradual implementation. The implementation of a free-trade area must be a gradual process in our opinion. We suggest that it be phased in by sectors such as petrochemical, agriculture, automotive, telecommunications, and textiles. This is necessary because each country needs time to educate the public on the mutual benefits of an FTA, including the growth of income, jobs, exports, and economic development.

Four, expectations. Each nation must be aware of the expectations that the other will bring to the negotiating table. And each must carefully consider the scope and content of an achievable FTA. It is important to recognize that we operate in a global economy, and production sharing is the sign of the times.

This does not mean the export of jobs. It means promoting a predictable environment for trade and investment.

Five, the Canadian experience. Each nation must also build upon the recent experience of the United States and Canada in the negotiations of an FTA. That experience included the creation of a structure and approach to the negotiation of an FTA that should be used to the advantage of both Mexico and the United States.

Six, solidify economic reform. An FTA will solidify Mexico's current economic reform process. The United States-Mexico Chamber of Commerce applauds the actions of President Salinas since he took office. And we believe many of those changes, changes long sought by U.S. policymakers, will prove irreversible if the United States supports them.

And these examples, Mr. Chairman, I will not go into them. They are in my testimony, but include the elimination of import permits, the reduction of tariffs to an average of 11 percent, privatization of state-owned companies, the liberalization of a foreign investment regime, and the recent increased protection for intellectual property.

Perhaps one of the most important benefits from Mexico will be to provide a context from Mexico to continue with its liberalization efforts.

The FTA negotiations will secure the process that President Salinas has set in motion and provide incentives for him. And we hope his successor, in the difficult process of continued reform in the economy.

Seven, and finally, the benefits of an FTA. First, to Mexico. These are obvious. Access to the U.S. market, job creation in Mexico, stabilization of the Mexican economy, continue the pace of direction and liberalization of trade investment, increase Mexican capital investment in Mexico, and the repatriation of much of that $50 billion of flight capital. And, finally, increased foreign investment in Mexico which we are seeing now as a Chamber.

The benefits to the United States, however, might not be so easily recognizable. First, increasing access to the Mexican market for U.S. products as tariff rates fall and are eliminated—as I said earlier, the average tariff rate of 11 percent today—expanding already significant bilateral trade and export opportunities for U.S. companies; engendering economic and political stability in Mexico and, indirectly, all of Latin America; providing access to other markets in Latin American through the ALADI, the Association of Latin American Integration; a network of trade preferences for imports from Mexico; goods that originate in Mexico and are eligible for reduced duty or duty free treatment upon importation into the other ALADI members which now includes all of South American nations, but not Central America. Although the volume of this trade now represents less than 5 percent of Mexico's total trade, in my opinion, an FTA will surely expand this pattern threefold in the next several years by providing a skilled labor force and growing production capability. An FTA would create a predictable environment for trade investment, which are long sought by our U.S. companies, providing an opportunity for the two nations to reach an understanding on trade and services.

And, finally, offering the opportunity to establish a dispute mechanism to handle trade remedy disputes and provide a forum for resolution of trade and investment issues.

In conclusion, Mr. Chairman, the United States-Mexico Chamber's role is to educate the two business communities at the grassroots level about the benefits of an FTA. We intend to make use of our network of offices in Los Angeles, Dallas, New York, Washington, and of course, Mexico City, toward this goal and are prepared for the task.

Thank you.

[The statement of Mr. Van Heuven follows:]

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President, Mexico Coordinating Committee
Jacobo Zaidenweber
President
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STATEMENT
OF GERARD J. VAN HEUVEN
EXECUTIVE VICE-PRESIDENT
U.S.-MEXICO CHAMBER OF COMMERCE
BEFORE THE SUBCOMMITTEE ON TRADE
OF THE HOUSE WAYS & MEANS COMMITTEE
JUNE 28, 1990

INTRODUCTION

My name is Gerard J. Van Heuven, and I am Executive Vice President of the United States-Mexico Chamber of Commerce. The USMCOC represents over 500 private corporations, from both Mexico and the United States. The USMCOC has offices in Los Angeles, Dallas, New York, Washington, D.C., and of course, Mexico City.

The USMCOC supports the establishment of a free trade agreement for the U.S. and Mexico, and recommends that the negotiations commence with the successful completion of the GATT Uruguay Round of negotiations, scheduled to conclude in December of this year. We encourage the two governments to begin consultations so that an outline for the arrangement can be reached prior to beginning formal negotiations. We are all aware of the groundbreaking work performed by both Canada and the United States that accompanied the U.S.-Canada FTA, and we hope that experience will offer valuable guidance that will help the U.S. and Mexico avoid unnecessary delay.

We see a U.S.-Mexico FTA as a natural step in a larger progression. With the gathering strength of the nations in the Pacific Rim and the advance of 1992 in Europe, global economic conditions favor these negotiations. We believe that over the long term an eventual North American Common Market is not only desireable, it is inevitable. Recently, Mexico and Canada held preliminary discussions on this subject. Canada reportedly will decide by this September whether it will participate in the U.S.-Mexico FTA consultations.

With this evolution in mind, the United States-Mexico Chamber of Commerce of today eventually should well become the North American Chamber of Commerce of tomorrow. From where I sit, and from what I hear from member companies, such a goal is no longer an academic hypothetical, but a realizable objective.

THE PROPOSED FREE TRADE AGREEMENT

As our two nations embark on the process of negotiations designed to create a better economic future, they must face many important issues that face any two nations considering such an arrangement. Each must understand the other's expectations of the terms and objectives of an FTA. The relationship with Mexico is not only one of the most important for the United States, it is one of the most complex, sensitive, and misunderstood. The interdependent relationship deserves greater attention, a reason that we welcome the FTA negotiation process.

The standard issues in any FTA discussions include the reduction of tariffs, the reduction or elimination of nontariff barriers, the fair and equitable application of each nation's trade remedy laws, whether trade in services as well as products will be addressed, how trade related investment measures will be evaluated, and even the issue of exchange rates which can operate to enhance or nullify the gains of trade. These issues are complicated by the multitude of special issues facing the two countries. The achievement of the goal will not be easy. The difficulties involved, however, are dwarfed by the benefits an FTA will provide.

The USMCOC is prepared to assist in this process in any way it can. We would like to offer several pertinent perspectives on the negotiation, content, and implementation of the FTA. First, we strongly support a gradual implementation of the FTA, as opposed to an immediate, shocking, and probably unnecessarily disruptive implementation for the agreement. One approach we favor is to begin with certain sectors, such as the petrochemical, agricultural, automotive, telecommunications, and textiles industries.

The ground work for such sectoral coverage has already been performed in the two recent Understandings between the two countries. According to the recent ITC Report, "the 1987 Framework Understanding was a catalyst that improved U.S.-Mexican bilateral relations. The 1989 consultative Understanding regarding Trade and Investment Talks created a parallel mechanism for industry specific and cross-sectoral negotiations."[1/] These Understandings should form the foundation for the negotiations.

Because both Mexico and the U.S. are members of the GATT, it is in the interests of the Chamber's member companies that the multilateral trade negotiation process proceed to a successful completion of the Uruguay Round. The Round should be first priority, and only then should we devote our full attention to FTA. Because both nations are members of GATT, we must also be mindful that the FTA must be consistent with GATT requirements, and build upon the anticipated mutually beneficial results of the Uruguay Round.

Many of the issues now on the agenda in the Uruguay Round are issues that must be faced by both Mexico and the U.S. as they begin bilateral discussions: tariff reductions, labor mobility, intellectual property, textiles, agriculture, services, and trade related investment measures. On a bilateral, as opposed to a multilateral basis, we can have greater expectations for the results on these issues being addressed in the FTA. Although a relatively new member of the GATT, Mexico has fully participated in the Uruguay Round, and according to all observers has played a constructive and moderating role in the negotiations.

An FTA will more precisely address current conditions of the Mexican-American economy. Issues such as skilled and unskilled labor will need to be addressed, just as they needed to be addressed in establishing the Canadian FTA. While the labor issues may be different, the U.S.-Canada Agreement demonstrates that it can be accomplished without encouraging the migration of workers from one country to another. Indeed the goal must be to stabilize the labor forces in each country, while capitalizing on the natural endowments that geography and history have provided.

[1/] Review of Trade and Investment Liberalization Measures By Mexico and Prospects for Future United States - Mexican Relations, Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States, Inv. No. 332-282 at vi, USITC Pub. No. 2275 (April 1990).

An FTA would directly further U.S. foreign policy. The USMCOC applauds the actions of President Salinas since he took office, and we believe many of those changes -- changes long sought by United States policymakers -- will take root if the U.S. supports them. Although the dramatic nature and rapid pace of change in Mexico would make it almost impossible to slow the momentum and direction of the changes, initiatives such as the FTA must be recognized by both the U.S. and Mexico for their broader potential to encourage stability and continued development of policies consistent with the goals of each country.

MEXICO'S DRAMATIC RECENT CHANGES

The significance of Mexico's recent changes can only be measured in historical context. The details of the policies pursued by President Salinas in his first 500 days in office are contained in the ITC's valuable study. It is nevertheless important to highlight the path that Mexico has embarked upon, as an illustration of the steps that Mexico has taken to enhance our bilateral economic relationship, steps that can be furthered and preserved in an FTA.

Import permits. Although once common, import permits are now virtually nonexistent. Only 5 percent of the products entering Mexico now require permits. This is a significant departure from the protectionist strategies of the past, and demonstrates Mexico's commitment to free trade. Complete change cannot be expected overnight. Gradual and phased implementation of liberalization is necessary to ensure smooth adjustment and prevent disruptive dislocation. Although some dislocation is inevitable, it must be isolated and the affected sectors must have notice and opportunity to participate in the adjustment process.

Tariff reductions. Mexico has surpassed all expectations in its efforts to reduce tariffs. Indeed Mexico has far exceeded its obligations undertaken upon accession to the GATT. Mexico promised to reduce its maximum tariff from 100 percent in 1986 to 50 percent. Mexico has gone even further, reducing the maximum tariff to 20 percent today. According to the ITC, Mexico's current trade weighted average tariff is approximately 11 percent, a surprisingly low figure. As the GATT principles are expanded to cover an ever greater number of sectors, the average tariffs are declining to figures much closer to the average U.S. rates.

Privatization. Mexico has also made significant strides in returning control of industries to the private sector. Approximately 70 percent of previously state-owned industries have been privatized. Although some point out that this figure accounts for only 40 percent of the revenues of state companies, Mexico is continuing its efforts. For instance, companies such as Telemex, steel, and financial institutions are now eligible for privatization. When this process is complete, the role of the state will be reduced to a level more comparable to the United States.

This substantial redirection of the role of the state in the Mexican economy signals to investors and traders that Mexico means business. The changes are not temporary experiments. They mark a permanent movement toward a full market economy. For example, the recent banking initiative is not merely a decree that can be rescinded with a change in the Executive; the change was made to the Constitution itself. With the momentum of the privatization efforts, some observers now even suggest that to improve Mexico's economic performance, Mexico should also consider energy as a sector that will eventually be a candidate for at least some degree of privatization.

Foreign investment. Historical comparison again yields a reflection of the significance of the steps Mexico has taken in liberalizing its foreign investment regime. In contrast to the restrictive regime of not so long ago, Mexico now permits foreign ownership for companies with capital of 100 million or less. For investments exceeding 100 million, important national policy concerns require prior approval. To balance the policy concerns with the need for predictability, the law provides that if no action is taken within 45 days on an application, the application is automatically approved.

Intellectual property. The United States and Mexico have been engaged in ongoing discussions on intellectual property protection available under Mexican law. As a result of these discussions, the USTR recently removed Mexico from the U.S. Special 301 "Priority Watch List." Mexico has announced plans to revise its patent, trademark, and trade secret laws to provide levels of protection consistent with U.S. and international expectations, such as extending the term of patents from 10 to 20 years. We understand that these changes are scheduled for implementation by mid-1991. As part of this process, Mexico adopted a greater measure of protection for certain trade secrets just this past January.

Each one of these changes is worthy of praise, but collectively they are evidence of Mexico's fundamental change in economic policy. They demonstrate that Mexico is undergoing a difficult, dramatic, and revolutionary process of change. The Chamber welcomes these achievements and encourages the United States government to provide support and continued incentives to the government of Mexico. With these changes Mexico has demonstrated that it is prepared for the negotiations leading to a U.S.-Mexico FTA, a development that will bring significant benefits to both countries.

THE BENEFITS OF AN FTA FOR MEXICO

As the U.S.-Canada FTA illustrates, each participant in an FTA benefits. The U.S. and Mexico would also benefit, and from the Chamber's perspective, we see specific benefits on both sides of the bargain. An FTA will have many significant benefits for Mexico.

Access to the U.S. market. Although some access to the US market for most Mexican goods is now common, an FTA will go even further. Despite generally low tariff rates, economists point to significant economic gains when tariff rates are reduced or eliminated in the context of bilateral trade. The economic benefits of specialization can be expected to follow and will enhance Mexico's access to the U.S. market.

Job Creation in Mexico. The gains from trade under an FTA will produce new jobs and new opportunities in Mexico. As exports increase and specialization occurs, higher employment levels will follow that will reduce and prevent labor mobility. The resulting pattern of trade will be more stable and provide greater security and long term benefits. The two economies are already inseparably interdependent. An FTA will work to ensure that the interdependence is a more equivalent and balanced relationship that reflects the full range of economic, social, and cultural concerns of the two nations.

Stabilization of the Mexican Economy. Increased integration of the two economies will have a stabilizing effect. As trade patterns are adjusted to reflect economic realties and the relative strengths of the two economies, Mexico's economy will enjoy greater predictability, with the engine of competition providing development.

Continue the Pace and Direction of Liberalization. Some of the benefits of negotiating an FTA are not so much in the results, but in the process. Perhaps one of the most important benefits for Mexico will be to provide a context for Mexico to continue with its liberalization efforts. The FTA negotiations will secure the process that President Salinas has set in motion, and will provide incentives for him and we hope even his successor in the difficult process of continued reform of the economy.

Attract Mexican Flight Capital. A devastating aspect of Mexico's prior economic policy was the significant capital taken from Mexico to other locations. Some estimates suggest that over $50 billion has left Mexico in the past several decades. The loss of these funds has hampered Mexico's reform process, and prevented development in many sectors of the economy.

Although it is difficult to estimate the volume in specific dollar figures, we expect that a significant portion of this capital would be attracted back to Mexico with the initiation of negotiations, and even more with the establishment of an FTA. The return of some or all this capital, combined with the new investment that would result from the FTA, would produce a valuable source of private finance for development of the Mexican economy.

Increase foreign investment. Again using the current example of the U.S.-Canada FTA, observers have pointed to significant new investment that has resulted from the adoption of the arrangement. Mexico can expect similar benefits from an FTA with the United States. Indeed, we expect that an FTA will be a catalyst not only for trade, but for increasing investment in both countries. Private investors, aiming to obtain the private benefits of free trade between the two nations, will provide a source of new capital, technology, and know how. Mexico's attractiveness as a location with special access to the U.S. market will enable the conducive investment environment it has created to flourish.

THE BENEFITS OF AN FTA FOR THE UNITED STATES

The United States also stands to reap significant benefits from the FTA, beyond the benefits that such an arrangement would provide to its neighbor to the south. The benefits are a tremendous incentive for the U.S. to pursue free trade with Mexico.

Access to the Mexican Market. With an FTA, the U.S would gain enhanced access to a market of over 86 million people, a market that is expected to reach 100 million by year 2000. The opportunities this presents are immense. As others have pointed out, for instance, Mexico's current population is roughly equal to the combined population of Poland, Romania, Czechoslovakia, and Hungary. Consider also that the population of Mexico City alone is greater than the combined populations of the nations of Costa Rica, Honduras, Nicaragua, and Panama. The opportunities for U.S. companies in these other regions are obviously not identical to those in Mexico. Nevertheless, the U.S should consider that the Mexican market, so close and so large, represents opportunities comparable to other areas of the world, opportunities that would be enhanced by duty-free trade.

The benefits of tariff reductions are amply demonstrated by the experience of the U.S.-Canada FTA. Existing trade patterns reflect the current tariff levels, not trade that would take place but for the remaining Mexican duties. Lowering and eliminating tariffs offers benefits in terms of the growth of income and jobs.

Skilled Labor Force. The elimination of tariff and other restrictions on trade will promote location of manufacturing in Mexico. U.S. interests will have access to a highly skilled labor force. The growth of the Mexican economy in recent years has produced a growing skilled labor force, capable of producing a range of products for export to the U.S. and elsewhere. Increasing employment in Mexico will have the indirect benefit of reducing labor mobility to the U.S.

Enhance U.S. Exports. An FTA would expand export opportunities for U.S. firms. Statistics indicate that bilateral trade between the two nations under current conditions was approximately $50-55 billion in 1989. This is a significant amount of trade. Mexico was the United States' third largest trading partner, after Canada and Japan. The importance of this relationship, of course, provides the basis for the FTA. It should, however, also provide a baseline for expansion of U.S. exports. The reduction and elimination of tariffs and nontariff barriers, and the establishment of other conditions favorable to trade will expand U.S. exports.

It is important to keep in mind that approximately 15 percent of the income of the average Mexican worker is spent on U.S. products and services, and in border transactions. This figure will undoubtedly increase under an FTA, providing greater revenues for U.S. companies.

Economic and Political Stability. In negotiating an FTA, we must not lose sight of the benefits that are not purely short term or economic. An FTA will engender economic stability, help Mexico bring inflation under control, and further the goals of the Solidarity Pact among Mexican business, government, and labor. This will enhance long term political stability, an important element of U.S. foreign policy. Mexico's role in Central and South America is often not well understood north of the border, but its influence on events to the south should not be underestimated. The role that an FTA will play in enhancing the political stability of the region should not therefore be ignored.

Access to Other Markets. Increased access to Mexico will also mean increased access to markets in Latin America beyond Mexico. For instance, ALADI, the Associacion Latin Americana De Integracion (the successor to LAFTA, composed of all South American nations and Mexico) provides favorable trade conditions for Mexican-origin exports. This means that intermediate exports from the U.S. to Mexico, that are subject to processing or manufacture in Mexico may be eligible for preferential treatment in other South American markets. Consequently, Mexico has the potential to provide access to markets much greater than its own. Because Mexican-origin goods will be entitled to preferential treatment in these markets, the combined effect of an FTA with the US will be an incentive for value added operations in Mexico, a significant benefit for U.S. companies.

Services Trade. An FTA would provide the United States with an opportunity to reach an understanding with Mexico regarding services trade. The services sector is one of the largest of the U.S. economy, and is a priority for the United States in the Uruguay Round. Many service sectors are covered by the U.S.-Canada FTA, and should also be candidates for inclusion in an FTA between the United States and Mexico.

Dispute Settlement. As part of an FTA, the U.S. could also seek to establish a dispute settlement mechanism to resolve disputes arising from the implementation and application of the FTA. As the volume of trade between the U.S. and Mexico has increased, so to have the number of cases in which imports from each country have been involved in trade friction. How the trade remedy laws of each nation will be applied under an FTA is an important issue on the agenda, and will provide the U.S. with an important opportunity for the creation of an effective dispute settlement process.

THE FUTURE OF US-MEXICO RELATIONS

Many observers view 1990 as a landmark year in world history; for U.S.-Mexico economic relations it promises to be. The inevitable interdependence we are experiencing will undoubtedly continue. We have in our grasp the means to strengthen that interdependence for the betterment of both economies. The U.S. should seize the opportunity to solidify the ongoing reform of the Mexican economy. We urge the governments of both nations to keep in mind not only the political and economic goals of an FTA, but the vision of the future that it presents for us. We see a bright future for the economic interdependence of our two countries, and welcome the day when all barriers to trade are eliminated and the economic well being of all North Americans will flourish.

Conclusion

I would like to thank the Committee for the opportunity to present the views of the U.S.-Mexico Chamber of Commerce. We commend the Subcommittee for holding these hearings, and will engage in efforts to educate the two business communities about the benefits and advantages of an FTA.

Chairman **Gibbons**. Thank you.

Mr. Flower.

STATEMENT OF LUDLOW (KIM) FLOWER III, MANAGING DIRECTOR, COUNCIL OF THE AMERICAS, ON BEHALF OF THE U.S. COUNCIL OF THE MEXICO-U.S. BUSINESS COMMITTEE

Mr. **Flower**. Good morning, Mr. Chairman, and members of the committee. My name is Ludlow Flower. I am the managing director of the Council of the Americas.

Today, my testimony is on behalf of the U.S. Council of the Mexico-United States Business Committee, of which the Council of the Americas is a sponsor.

We welcome these hearings. I would like to add my thanks to that of others, to you, Mr. Chairman, for scheduling these hearings. They come at a moment particularly important, I believe, in the relationship between the United States and Mexico, and indeed especially in view of President Bush's speech yesterday of the relationship between our country and that of all of the countries of the hemisphere.

The Mexico-United States Business Committee is the oldest binational independent business organization in the two countries. It has been in existence for more than 40 years. It is broadly representative of the major U.S. multinational corporations doing business in Mexico, as well as representative of the Mexican business community.

The purpose of the committee is to improve the economic relationship between Mexico and the United States. The committee has long seriously worked on trade issues and on the possibility of a free-trade arrangement for at least the last 10 years. The important point I would stress that the views of the committee are binational and they are deliberative. Mr. Chairman, on June 14 last, Mr. Juan Gallardo who is the chairman of the Mexico Council of the committee, testified before this committee.

I will not repeat the volumes of statistical evidence that this hearing had already heard, and of which my own written testimony has its fair share, nor would it seem necessary to review again that Mexico is a country that is profoundly changing. I would associate myself with the insightful and succinct views of Bill Rogers, who described that situation I thought very clearly earlier this morning.

My purpose in appearing before you today is simply to say that we view the current moment as a unique opportunity for Mexico and the United States to integrate our economies in ways that will advance the standard of living and the global competitiveness of both countries.

It would be a mistake, we believe, not to seize this opportunity. Other countries in the world are busily knitting themselves together into larger, more competitive groupings. We cannot always stay the same. We must go forward or fall behind. We cannot have a static approach to our international economic arrangements. We must be dynamic.

We believe that a free-trade association with Mexico should be framed to include a carefully considered program of staged reductions of all major tariffs and all other trade barriers leading eventually to the elimination of all trade restrictions. Of course, this program should be consistent with GATT rules and should reflect the differing stages of development between the two economies.

FTA should define very clearly rules of origin to ensure that the benefits would accrue to the two countries and not to other countries who sought to join the agreement without going through the negotiations. Such an agreement should encourage the flow of investment capital from this country to Mexico and vice versa by assuring equal, fair, and transparent treatment for foreign investment in both countries.

It should also, and very importantly, protect intellectual property rights. It should include a very clear and easily enforceable antidumping and countervailing duty laws in both nations. It should allow, surely for temporary safeguard measures which would ease the difficulty of transition for labor, for industry, and for affected local communities. It should keep the process of negotiation completely consistent with our obligations to the GATT.

It should have a built-in effective and automatic mechanism for rapid consultation and conflict resolution when problems arise in both countries on trade and on investment issues. The agreement, of course, should be reviewed frequently, perhaps even kept under continued review, to assure that it is fulfilling the purposes of both countries.

In conclusion, we believe that a free-trade agreement with Mexico, a carefully negotiated one along these lines, would be good for both Mexico and for the United States. In other words, we should enter into these negotiations because the result would be in our own best interest. An FTA would enhance our global competitiveness, and it would improve our standard of living.

I would like to emphasize that we see a possible future free-trade agreement as one which would facilitate not only trade but which would also have benefits for U.S. private investment in Mexico, and help protect our citizens' legitimate intellectual property right. In other words, we view such an agreement is a broad business agreement which would deal with more than just trade.

You asked, Mr. Chairman, earlier this morning, whether the business community would support such an agreement. I would not propose to speak for the immensely complex American business community, the basis for the world's largest continental economy. I can only say that the corporate members of the Mexico-United States Business Committee are firmly behind this free-trade agreement and have been for many years.

I also represent the Council of the Americas which is a larger association of U.S. companies doing business in Latin America. We have not polled the membership of the council. But it is my clear impression that the vast majority would be strongly supportive.

Finally, I would like to inform you that the Mexico-United States Business Committee, in association with the Business Roundtable, has already commissioned a major economic study which we hope will give a detailed picture of what a free-trade agreement might look like in reality. The study will be based on a general equilibrium model for both Mexico and the United States.

The United States part of the picture would be drawn by Peat Marwick, a well-known international accounting and consulting firm. The Mexican side would be done by two Mexican academic institutions. For the United States, there would be a State-by-State breakdown of the data. We will, of course, make any parts of that study the Congress may be interested in, immediately available to you upon its completion.

Once again, Mr. Chairman, thank you for the opportunity to contribute to this very important hearing.

[The statement of Mr. Flower follows:]

TESTIMONY OF LUDLOW FLOWER III
REPRESENTING THE U.S. COUNCIL OF THE
MEXICO-U.S. BUSINESS COMMITTEE
HEARING ON U.S. - MEXICO ECONOMIC RELATIONS
BY THE SUBCOMMITTEE ON TRADE,
WAYS AND MEANS COMMITTEE,
UNITED STATES HOUSE OF REPRESENTATIVES
JUNE 28, 1990

Prospects for the Negotiation of a Comprehensive U.S.-Mexico Free Trade Agreement

Mr. Chairman, distinguished members of the Committee and guests, I would first like to thank you Mr. Chairman for holding these hearings at this critical juncture in the economic relationship between Mexico and the United States.

With the announcement by President Bush and President Salinas of preparations for negotiations toward a comprehensive free trade agreement between our two countries, we have embarked on a path long espoused by business leaders in Mexico and the United States.

The Mexico-U.S. Business Committee is the oldest binational independent business organization operating in our two countries. On the U.S. side, the Committee represents approximately 45 of the top U.S. businesses with substantial interests in Mexico. On the Mexican side, our membership consists of CEMAI (the Mexican Business Council for International Affairs), an organization representing a substantial number of the top Mexican businesses. The North American section of CEMAI has over 80 members. In addition, we are sponsored by the American Chamber of Commerce of Mexico, the Chamber of Commerce of the United States and the Council of the Americas. My position is as the Managing Director of the Council of the Americas.

Since its inception and particularly over the last ten years, the Committee has been working toward improving trade and economic relations between our two countries. We are gratified that over the years we have contributed to a growing business consensus in support of economic liberalization in Mexico and of reduction of barriers to bilateral trade.

We view the current situation as a unique opportunity for Mexico and the United States to integrate their economies in ways that will advance the standards of living and global competitiveness of both countries.

It would be a mistake not to grasp this opportunity, both because it may not come again soon and because other regions of the world are seizing similar opportunities to advance their own development. If the opportunity is lost, we risk falling behind rather than simply maintaining current conditions.

Mexican and U.S. business leaders jointly decided to support an FTA after thorough study, debate, and binational consensus building. [See Attachment for details.] Our recommendations are the product of careful consideration by the U.S. and Mexican business communities represented in the Committee. Thus, as our two governments consider negotiation of an agreement, they do so with a strong binational private sector constituency.

Advantages of a Free-Trade Agreement

The gradual elimination of tariff and non-tariff barriers, restraints on trade in services and restrictions on investment will offer substantial economic benefits to both countries. Such a comprehensive free trade agreement would help Mexico achieve long-term, noninflationary growth by further enhancing Mexico's investment climate, providing better access to the U.S. market and to international capital markets.

For the U.S., such an agreement would also produce significant economic benefits by creating new market opportunities, spurring new employment and fostering efficient manufacturing and supply relationship that will improve U.S. industrial competitiveness.

The economic relationship is already extremely significant for both countries. The United States is Mexico's largest trade partner, while Mexico is the United States' third largest export market. U.S. exports to Mexico increased by over 20% in 1989. On the basis of Commerce Department criteria, this trade provided employment for over 500,000 Americans. Renewed stable, long-term economic growth in Mexico, from a per capita income level only about one tenth of that in the United States, presents a significant opportunity for continued expansion of this export market.

Summary of Recent Bilateral Liberalization

Over the last five years, rules and practices governing bilateral trade and investment have improved dramatically. Over this period the United States and Mexico have:

- signed an agreement regarding subsidies and countervailing duties;
- signed a bilateral Framework Agreement in 1987, which established principles for their trade and investment relations and encouraged negotiations, consultations and the resolution of disputes;
- agreed to engage in "trade and investment facilitation talks (TIFTs)," which explored the liberalization of key sectors.

In addition, Mexico has:

- joined the General Agreement on Tariffs and Trade ("GATT");
- abandoned an "import substitution" model of economic policy, which sought domestic self-sufficiency through protection and government subsidies, and endorsed the goal of competitiveness in global markets;
- lowered its tariffs, reducing its maximum rates from 100% to 20%, and eliminated import licensing requirements on most products;
- sold to the private sector or liquidated hundreds of state-owned enterprises, and deregulated key sectors, especially transportation; and
- substantially liberalized the regulation of foreign investment.

In response to President Salinas' moves to open trade and encourage private enterprise, and to encourage future liberalization efforts by the Mexican government, the U.S. has taken steps to bolster Mexico's economy, including:

- liberalizing restrictions on steel, textile and apparel imports from Mexico;

- -- supporting the restructuring of Mexico's external debt;
- -- substantially expanding Mexico's benefits under the Generalized System of Preferences;
- -- removing Mexico from the "priority watch list" of countries believed to afford inadequate protection to intellectual property based on Mexican actions to introduce new legislation in 1990.

These steps have quickly begun to pay off. A high level of confidence now exists in the business sectors of both countries that increased prosperity and employment will result from combining their resources and markets.

The Committee believes that Mexico and the United States should now proceed to eliminate in a GATT-consistent fashion, the remaining impediments to the free flow of goods, services, technology and investment capital across their border.

I. Toward a Free Trade Agreement

The U.S. and Mexico should use the Uruguay Round to achieve as many of the elements necessary for a comprehensive free trade agreement as possible. For example, substantial advances can be made on:

1. Reductions in duties;
2. Elimination of nontariff barriers;
3. Liberalization of trade in agriculture, textiles and services; and
4. Discipline over the use of trade-distorting investment measures; and
5. Protection of intellectual property.

Concurrently, the governments can define the issues that the Uruguay Round may not adequately address, exchange information, and otherwise prepare for negotiations to start early in 1991 on the remaining work necessary to achieve a comprehensive Free Trade Agreement.

During the preparations for the negotiations and once the negotiations commence, the two governments should take into consideration the results of studies currently being undertaken on the impact of such an agreement on both economies, such as the ITC Section 332 investigation report, the recently released Business Roundtable report and the forthcoming economic study commissioned by the Mexico-U.S. Business Committee.

The Committee anticipates that it will play a constructive role in the private binational consultations that will accompany the negotiations and in the ensuing debate over the agreement.

II. Principles to Guide the Liberalization of Bilateral Trade and Investment

In the free trade agreement negotiations, the Committee has recommended that the two governments consider provisions that would:

1. Establish a program of staged, asymmetrical reductions of all tariffs and other trade barriers by each country leading to the elimination of all barriers to bilateral trade, consistent with relevant GATT provisions. Some barriers could be eliminated immediately. Others would be phased out over time. Staging would be established on the basis of the competitiveness and adjustment needs of the country or region, the product or service, and the industrial, agricultural or labor sector concerned. Asymmetrical reductions would also be determined, as with the entrance of Portugal and Spain

into the European Community, on the basis of the relative stages of development of the two countries;

2. Define clear and appropriate rules of origin which will ensure that the benefits of the Agreement accrue to the parties;
3. Encourage the flow of investment;
4. Protect intellectual property;
5. Ensure transparency and due process in the application of each nation's antidumping and countervailing duty laws;
6. Allow temporary safeguard measures to deal with serious injury to industries, labor or localities in either country resulting from the liberalization process;
7. Ensure that GATT and other international obligations of both parties are fully observed;
8. Ensure timely and adequate notification, transparency and consultation in the trade and investment regimes resulting from the Agreement;
9. Include a well-defined process for removing technical and administrative barriers to trade and investment that are identified during the operation of the Agreement;
10. Establish a trade and investment dispute settlement mechanism;
11. Establish periodic reviews of the Agreement.

III. Conclusion

In the past, U.S.-Mexican trade relations lacked any bilateral, or multilateral, regulatory structure. This was quite different to the relationships with all our other major trading partners, which were governed by the General Agreement on Tariffs and Trade. This was an undesirable situation, especially in view of the physical and economic proximity of the two countries.

Over the past decade, however, we have seen remarkable and very beneficial changes in the trade policies of both countries, as well as the development of an improved framework for the bilateral relationship. We have now reached the point at which we can maximize the economic contribution that each country can make to the other through a Free Trade Agreement. For both countries this will mean more jobs, a higher standard of living and enhanced international competitiveness.

CHRONOLOGY

Chronology of U.S.-Mexico Economic Relations

1981 June

In the aftermath of President Lopez Portillo's 1980 decision not to join the General Agreement on Tariffs (GATT), Presidents Reagan and Lopez Portillo establish the U.S.-Mexico Joint Commission on Commerce and Trade for government-to-government consultations.

October

The 36th Plenary of the Mexico-U.S. Business Committee discusses a proposal for a bilateral framework agreement, Washington, D.C. (The bilateral framework agreement is sometimes referred to as a bilateral trade and investment agreement or a bilateral commercial agreement.)

1982 October

The binational Business Committee considers a report on bilateral trade and the outline of a possible framework agreement at its 37th Plenary, Ixtapa, Guerrero, Mexico.

November

U.S. and Mexican negotiators are unable to find a means to resolve bilateral trade disputes involving Mexican subsidies and U.S. countervailing duties.

1983 October

The Mexico-U.S. Business Committee presents its proposals for a bilateral agreement, Houston, Texas.

1984 Continuing a trend begun in 1982, U.S. firms file complaints about Mexican export subsidies. (From 1980 to 1987, U.S. interests filed twenty-seven complaints; countervailing duty orders are in effect for thirteen.)

October

The Mexican Business Council for International Affairs (CEMAI) agrees to support the concept of a bilateral framework agreement between the United States and Mexico. (The CEMAI is the sponsor of the Mexican Section of the binational Mexico-U.S. Business Committee.)

1984 November

The Chamber of Commerce of the United States announces its support for the concept of a bilateral commercial agreement between the United States and Mexico.

December

Mexican and U.S. officials discuss a draft Statement of Intent to negotiate a framework of principles and procedures on trade and investment.

1985 February

In a meeting in Mexico City with members of the Mexico-U.S. Business Committee, President de la Madrid states that Mexico will: (1) attempt to resolve outstanding trade and investment issues with the United States, including disputes on export subsidies and U.S. countervailing duties and Mexican regulation of the chemical-pharmaceutical industry; (2) restructure the Mexican economy and its trade regime; (3) consider a bilateral commercial agreement with the United States; and (4) review Mexico's multilateral commercial relations, that is, its possible membership in the GATT.

April

The Mexican government announces its Program for the Development of Exports (PROFIEX), which confirms its willingness to consider a bilateral agreement with the United States.

Mexican Secretary of Commerce and Industrial Development Hector Hernandez Cervantes and U.S.T.R. William E. Brock III sign an agreement that provides Mexican exporters with the injury test in U.S. countervailing duty investigations in exchange for a Mexican commitment to eliminate export subsidies;

Brock and Hernandez also announce an agreement on the Statement of Intent to negotiate a framework of principles and procedures on trade and investment, which would cover tariffs and non-tariff barriers, investment, administrative actions, and the establishment of regular consultations.

The American Chamber of Commerce of Mexico, testifying in Washington before the International Trade subcommittee of the House Committee on Ways and Means, announces its support for the bilateral framework agreement.

July

Mexico introduces sweeping reforms in its trade regime, including tariff cuts, reduced use of import licenses, and the phased elimination of official import prices.

Mexico and the United States, at their fifth Binational Meeting, reiterate their willingness to negotiate a bilateral trade and investment agreement.

1985 **September**

The U.S. Trade Policy Staff Committee requests public comments on the discussion of a trade and investment agreement with Mexico.

The U.S. Council of the Mexico-U.S. Business Committee and the Council of the Americas communicate their support for the bilateral agreement to the U.S. government.

October

The Mexico-U.S. Business Committee reiterates its strong support for a bilateral commercial accord.

November

Mexico announces its intention to join the GATT and opens negotiations with the GATT Contracting Parties.

December

U.S. and Mexican officials meet in Washington for discussions on the framework agreement.

1986 **April**

Mexico and the United States agree to defer negotiations of the bilateral agreement until Mexico completes GATT accession.

July

In the context of the GATT talks, Mexico lowers tariffs or eases licensing requirements for 210 manufactured products, chemicals, and agricultural commodities of particular interest to the United States.

The GATT Contracting Parties approve the terms of Mexico's accession to the GATT.

August

Presidents Reagan and de la Madrid instruct their trade negotiators to complete the bilateral framework agreement in 1987.

Mexico formally accedes to the GATT.

1987 **January**

Partially in response to the Mexican treatment of intellectual property, the United States declares that an estimated $637.5 million of Mexican exports (based on 1986 trade) will not be eligible for duty-free treatment under the U.S. Generalized System of Preferences.

February

Mexico and the United States recommence negotiations on a bilateral agreement.

May

U.S. and Mexican negotiators meet in Ixtapa for a formal negotiating session on the bilateral agreement.

August

U.S. and Mexican officials meet in Washington to prepare a single negotiating text of the bilateral agreement.

September - October

U.S. and Mexican negotiators prepare the final text of the bilateral framework agreement.

November 6

Secretary of Commerce and Industrial Development Hector Hernandez Cervantes and U.S.T.R. Clayton Yeutter sign the bilateral framework agreement on behalf of Mexico and the United States.

1988 **January-October**

Numerous intergovernmental meetings accomplish substantial progress under the terms of the bilateral framework agreement.

November

The two chairmen of the Mexico-U.S. Business Committee urge Presidents-elect Bush and Salinas to move toward the negotiation of a comprehensive free trade agreement.

1989 **June**

The Mexico-U.S. Business Committee releases its paper entitled "Options for Liberalizing U.S.-Mexico Trade and Investment," which concludes that the best option for liberalizing bilateral trade is through a comprehensive trade and investment agreement.

October

U.S. Secretary of Commerce Robert A. Mosbacher and Mexican Secretary of Commerce and Industrial Development Jaime Serra Puche sign an understanding committing the two governments to undertake bilateral Trade and Investment Facilitation Talks (TIFTS).

The Ways and Means Committee asks the International Trade Commission to provide the Committee with a comprehensive review of Mexico's trade and investment reforms and analysis of future prospects for the U.S.-Mexico trade relationship.

November

The Mexico-U.S. Business Committee releases its paper, entitled "Toward Greater Economic Progress Through a Comprehensive Trade and Investment Agreement Between Mexico and the United States," calling for the negotiation of a Comprehensive Trade and Investment Agreement.

1990 **April**

The International Trade Commission releases its report, entitled Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations. (ITC # 2275).

May

The Mexican Senate reports to President Salinas on the results of its "National Dialogue" on Mexican trade policy, involving all segments of Mexican society, recommending that the Mexican government pursue a U.S.-Mexico free trade agreement.

June

The Business Roundtable releases its report strongly supporting the negotiation of a comprehensive trade and investment agreement between Mexico and the United States.

The two Presidents announce in Washington their intention to begin preparations for the negotiation of a free trade agreement between their two countries. Their two trade ministers will report back in December 1990.

Chairman GIBBONS. Thank you, Mr. Flower. And of course, we would be glad to have the results of the study when it is completed. As you said in your statement, this is a complex country that we represent. And we are going into another complex country, and our institutions are not as parallel as they were in, say, Canada. But I do not think those are insurmountable problems. It may take a little while longer to unravel all of it.

I think what you all have said about phase-in is very, very important. I believe like you do, Mr. Vanik, that if there is a plan, if there is a time to adjust, and if there is a schedule, we can make those changes as long as they are in our general best interest.

Because of the announcement that I made that the chairman had called us at 2 o'clock, I am going to refrain from any other dialog with you at this time.

Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

Mr. Vanik, it is a pleasure to see my old trade chairman again and see you looking so well. I am particularly pleased to have you here and listened to your wise comments.

You were more or less the champion of trade assistance at one time for workers in this country that were displaced or dislocated as a result of trade, seeing that they were taken care of, retrained, relocated, their burden eased as a result of any economic displacement. Should any kind of a trade agreement carry with it somewhat of an arrangement to take care of any possible concerns of labor in the event that there will be, as labors unions have just stated earlier this morning, hundreds of thousands of people displaced.

Mr. VANIK. Well, I think I would like to answer that first of all by saying if you have a phase-in, as the chairman has already proposed and suggested, I think that it reduces certainly the dimension of any kind of trade assistance program. That is the advantage of a phase-in system. It gives business, it gives labor, it gives enterprise an opportunity to adjust. If they know what the schedule is, they can adjust to things. And I think that under that kind of plan, a good part of the adjustment can be handled between the employer and the employee. Knowing something is coming up ahead under a certain schedule, they can plan for it and reduce the impact of it.

I have no model or chart to indicate how much adjustment would be required. It would be my hope that a minimum amount of adjustment would be needed if we adopted the proper, worked-out schedule of movement to free trade.

Mr. GUARINI. It could well be because of new trade opportunities, new jobs could be created. There could be expansion of industries. And it could end up being a plus instead of a minus.

Mr. VANIK. It could. As we moved into the program, we could measure the impact of the earlier things done and determine what kind of job-creating activity they have brought in, what kind of new opportunities they have opened up. We ought to be able to measure that so it might offset any job loss at the lower end.

Mr. GUARINI. You were also very much in the forefront on human rights. There is an article that was in the front page of Christian Science Monitor the day before yesterday where it indicated the National Human Rights Commission had issued a report on political repression and the drug wars. It said excessive violence and abuse were committed by the police, the report concluded that even the Mexican Government had adopted the policy of tolerating such behavior or it had lost control over its police and indicated that there were torturous killings and other abuses that have become institutionalized in Mexico in recent months.

I do not know if you have seen that. But my question would be: Should human rights be part of this free-trade agreement as well?

Mr. **Vanik**. Well, I would hope that the circumstances as we develop them would be such that it would not require any special or added language that we have not already developed in the law. I think that we already have a pretty good code established. And we are certainly able to observe and monitor the Mexican situation more effectively than we can in any other place in the world. And I would hope that the need for special human rights language might be avoided based on what we find to be the situation at the time we deal with the issue.

I want to add one other thing, Mr. Chairman, and it is important because I want to tell you about it. This afternoon at 4 o'clock we are getting a new Ambassador to Mongolia, an independent state between China and Russia that was not on the regular itinerary of our interest. But I want to point out they are going to be asking for consideration for a Jackson-Vanik waiver on the basis that they have no immigration problem. So I want you to save some time on your calendar before adjournment to be able to take care of this issue because I know they are going to be coming down and asking the administration and this committee for approval of a waiver.

I also want, if I can just tell you that I am meeting later in July with a large delegation of people from around the world on the immigration issue. With the developments in Eastern Europe, we now have about 400 million people with a new human right of emigration. Our real problem is going to be looking for host countries where these respective immigrants might be accommodated. We are running out of hospitality in the world. So this subject has created another problem that we did not expect and we must address.

I just wanted to add that bit of information.

Mr. **Guarini**. Well, in the pretrade agreement, should we address the drug problem, which is really one of our national priorities, according to the President? Should we take this as an opportunity to address the immigration problem?

Mr. **Vanik**. Well, I think that while we are moving toward the free-trade relationship, we have an opportunity to monitor more carefully the steps that the Government is taking in Mexico to help us control the drug flow. It would be my hope again that we have enough assurances built into our relationship to guarantee and give us adequate—as much guarantee as a Government can give.

Mr. **Guarini**. Should we make our concerns well known so that we can assure ourselves better cooperation?

Mr. **Vanik**. I think our concerns are well known and should probably be emphasized as a part of consideration for avoiding special language in the agreement. But I think that in this time of discussion it is certainly proper and right for Americans to inquire what Mexico will be doing and how they plan to help us deal with this problem that greatly injures both of our countries.

Mr. GUARINI. How would you go about trying to get a hemispheric agreement by using the Mexico as a model and then using that as a format to sit down and talk with other countries that would want to enter into a free-trade agreement?

Mr. VANIK. Well, it would seem to me that the Mexican free-trade agreement might very well become the model. And whether it is an acceptable model will depend on how well it works or how well it is moving. But I think the Mexican agreement will certainly give us the parameters, the boundaries, and the approaches with which we have to face the hemispheric problem.

Mr. GUARINI. Thank you very much. It is a pleasure to see you again, Mr. Vanik.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. I want to welcome back our distinguished colleague who served this subcommittee with distinction as well as the full committee. A couple of questions.

We have testimony coming up from some folks who have some reservations that they articulate in their testimony. And specifically I am referring to Mr. Bouis, the president of the Florida Fruit & Vegetable Association. His concerns deal with the competition from Mexico in the production of fruit and vegetables and the enormous handicap experienced by people in that industry here in the United States if there were a free-trade agreement.

He talks initially about the difference in cost. And the cost deals with a variety of factors, OSHA regulations, hazardous waste carrier regulations, workers comp, Social Security, minimum-wage laws, unemployment insurance, health insurance, in short the incredible burden that is placed on American producers that is not in place with respect to production of their competitive items in Mexico. And his fear is that without leveling the playing field somehow, you are going to kill a $3 billion industry in the State of Florida alone.

He raises another good question, it seems to me, and that is the shortage of labor here in the United States in agricultural production. And he said traditionally we had been dependent upon legal and illegal labor, and proposes that if we are going to negotiate a truly free-trade agreement, should we not give consideration to the free movement of labor between countries. And I would be interested in hearing your comment on that.

Mr. VANIK. Well, I do not know that I want to say very much about the free movement of labor. I think that is something for each of out two countries to sort out. I would say with respect to the competition in the fruit and vegetable market that I came early on this question during one of our expeditions to Mexico, the day of the earthquake. We were apprehended by the Mexican tomato growers who were outraged because the Florida people were complaining about the size of the Mexican tomatoes, which were somewhat irrationally large. And they wanted them all to be uniform in compliance with a Florida machine that just jerked out the plants, which were all about the same age, so the tomatoes were all smaller.

My reaction at that time was that the American diet is going through a rapid change, depending more and more on fruits and vegetables. At my stage of life, they are almost the staff of life, with very little meat. And one of the securities that I like is that there is a frost-free zone somewhere. I am just going through paying, in Florida, a condominium expense to restore the frost damage ordered by law. The law of our community is that we have got to restore everything that was frosted out. So we have all had to dig in and cover the cost of replanting.

I think there is some advantage to having other areas available for just this insurance. I think the frost might strike Florida at one time, it might strike Mexico another, and so we have a flow of fruit and vegetables which is essential to our lives which would be uninterrupted or less damaged by frost, that it can be spontaneous and occur in various places in the southern part of our hemisphere.

So I think it is important to have an alternative source. I think there is no question that costs of production—when we talked about the tomatoes, the issue was whether we have tomatoes raised in southern California on American soil with Mexican labor, or had other tomatoes raised in Mexican soil with farms and systems that were owned by Americans. Then we had the Florida crop which was a crop raised on American soil principally with imported labor. And really the only American product at that time were the tomatoes that were grown in Cleveland in greenhouses. They were 100-percent American.

But notwithstanding that, my own feeling is that we ought to have an alternative source to protect us from weather. I think that as we go into the trade agreement on vegetables we ought to probably try to create a more level playing field by trying to make sure there is movement in the Mexican production to provide some of the same assurances that are required by our law. I think these things can be negotiated and worked out.

But as a matter of need, I would say that America needs production of fruits and vegetables from both Mexico and Florida. We will always rely principally on Florida because it is closer to us, and we get practically all of our oranges and citrus from Florida, and some from California. But I think that we need both sources.

And I think that in the negotiation of an agreement we can make some accommodation to take care of the problem that I think will be addressed later this afternoon by the Florida delegation.

Mr. CRANE. I saw an article by the editor of the Wall Street Journal making reference to Mark Twain's "Life on the Mississippi." And in that book Mark Twain said you got up to Natchez, Mississippi, before you did not see oranges growing. That source of oranges has moved progressively farther south.

And I was in Orange County, Fla., just this past weekend where they do not even know what an orange is anymore unless they are importing it from southern Florida. And perhaps chloro-fluorocarbons might be the solution.

I have heard all about that greenhouse effect and how we are going to be suffocating. But if you look at what has happened to production in many parts of Florida because of that cold moving progressively farther south over the past century, there seem to be some contradictions.

Let me ask just one other question, and it is in this same context. It is from one of the earlier witnesses. This was from Mr. Anderson's testimony. He pointed out that tens of thousands of workers under current trade arrangements have already lost jobs here in the States, and tens of thousands more will vanish in the future as companies transfer production to Mexico to take advantage of the poverty of Mexican workers in the absence of any effective regulations on corporate behavior.

And he goes on to say:

> A free-trade agreement will only encourage greater capital outflows from the United States and further harm the United States industrial base.

I would be interested in hearing your comments on that.

Mr. **Van Heuven**. Congressman Crane, I would like to respond to that. And first, if I may follow up on Chairman Vanik's thing with the tomatoes. We were very much involved with that and brought in the Mexican tomatoes to compare with the Floridians, which the Mexicans were large red tomatoes, and, as you know, at that time the green ripe tomatoes from Florida.

What kept Mexico out at that time was the nontariff barriers, the size, maturity, packaging of the tomato—we could not fit them in the box that the Floridians had mandated. So we tried to squeeze them before your committee. And naturally the Mexican's were bigger and redder and they would not fit in.

But having said that, I would just like to say that in our opinion probably the agricultural sector will be the most difficult in a free-trade agreement. And what I would recommend the committee look into is what Congressmen de la Garza has worked out with melons, permit Mexican products to enter the United States on a complimentary basis when the Floridians or other growers cannot meet U.S. demand, in this case Mexican production is allowed entry. And it might be looked into other products in agriculture.

Your question regarding the loss of jobs and everything, I used to represent a large multinational in your home State in the earthmoving business. And as you well know, that company and many others moved offshore. I think the results of moving offshore with that particular company in Illinois and others is a creation of U.S. jobs in the long run.

No longer can our companies go ahead and develop the labor, the resources, and the technology in a certain area. We see through our experience that the way to maintain jobs in the United States is by in many cases moving offshore to be competitive with the Pacific Rim and what is emerging in Eastern Europe. And if you like, we have a number of studies like that that have been done in the United States-Mexico Chamber where I think you will see the end result is a creation of jobs.

I think when Chairman Vanik traveled down with us to the maquila industry, the assembly operations in Nogales and Tiajuana, he noted talking with our U.S. plants, that in fact U.S. companies like Samsonite, Memorex, and RCA created jobs back in the United States rather than eliminating them.

Mr. **Flower**. Congressman Crane.

Mr. **Crane**. Mr. Flower.

Mr. **Flower**. I would like to respond to that question as well as to an earlier comment that you made with respect to the last point. It seems to us that any time that you disturb traditional or habitual economic relationships there are going to be winners and losers. If there are going to be more losers than winners, then we should not do that.

We have concluded, however, that in the case of Mexico, it is most likely that there will be more winners than losers and therefore it is worth pursuing.

With respect to your earlier point about costs levied on U.S. businesses that are not similarly imposed on Mexican business, we believe that that is a very legitimate concern and one that needs to be addressed seriously in the negotiations. It may well be, however, that when all is said and done, that the agricultural sector in this country will shrink somewhat as our comparative advantage turns out to be less than that of Mexico.

On the other hand, I think that there is ample historical evidence in the case of our own trade arrangements with other countries over the course of history, that when comparative advantages are allowed to operate, everybody gains from trade.

Mr. **Crane**. Thank you very much, gentlemen. I appreciate your testimony.

Chairman **Gibbons**. Thank you all for coming.

Mr. **Guarini**. Mr. Chairman, may I just ask one question?

We always look at it from the United States viewpoint. But looking at the winners and losers from the Mexican viewpoint, where would their economy sustain the most pain? Mr. Van Heuven and Mr. Flower, from your experiences, what sectors would be hit the hardest and first if Mexico entered into a free-trade arrangement with the United States?

Mr. **Flower**. I do not feel competent to answer that question with any real certainty. And that is precisely the point of the Mexico-United States Business Committee's commissioning this study, which will look at precisely the question you posed, from both sides of the border. But as a sort of short answer, it would be those sectors for which the Mexicans are relatively less competitively advantaged. And certainly that would be in all of the high-tech sectors where the United States companies are relatively more advantaged.

Mr. **Guarini**. Mr. Van Heuven.

Mr. **Van Heuven**. Yes, I think basically, from my experience, the small and medium sized companies in Mexico would initially be hurt. Many of those would not be able to compete with an open market at this time. However, that is understood by the Mexican Government, and likewise those companies which are represented in our organization through Canacintra. And I do believe that a gradual process is the best method for us to take now.

We see with talking with many of our companies on both sides of the border that an FTA will be phased in by sectors, and those sectors which I mentioned earlier, we feel that Mexico can compete. In these sectors, particularly petrochemicals in the secondary field, textiles, telecommunications and automotive parts are key sectors where we feel that Mexico can compete now. The other sector, as Mr. Flower said, we are starting to evaluate.

But in summary, the small and medium size companies in Mexico initially would be hurt.

Mr. **Guarini**. But the labor-intensive areas would not be hurt.

Mr. **Van Heuven**. I would think that in FTA labor-intensive areas would be helped.

Mr. **Guarini**. All right, thank you.

Chairman **Gibbons**. We must move on. I hate to say this, but I have got orders to quit at 2, and I have got a lot more witnesses.

Our next panel is Charles Crowder, who is president and chief executive officer of Santa Teresa International of Santa Teresa, New Mexico; and Mike Allen of McAllen Economic Development Corp.

Gentlemen, come right in. We want to proceed right ahead with Mr. Crowder.

STATEMENT OF CHARLES L. CROWDER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SANTA TERESA INTERNATIONAL, INC., SANTA TERESA, NEW MEXICO

Mr. **Crowder**. Shall I go ahead?

Chairman **Gibbons**. Yes, sir.

Mr. **Crowder**. Thank you, Mr. Chairman. I appreciate this opportunity to be here.

I am Charlie Crowder from Santa Teresa, New Mexico.

Chairman **Gibbons**. Yes, sir.

Mr. **Crowder**. And I spent the last 25 years in a border location just west of El Paso, Texas, in New Mexico observing Mexico and attempting to complete or initiate a major international project which would straddle the border, all private-sector activity.

Since the inauguration of President Salinas, I have seen more positive changes in Mexico and more real opportunities for trade with that country than we have witnessed in 25 years.

Earlier when the UAW and some of the gentlemen were talking about Mexico, it occurred to me that one of the most important elements of our leadership would be to recognize credible, ethical, and honorable governments when we see one. And the Salinas administration, his Cabinet, and his staff, the people that staff that Government, represent the greatest single opportunity, I believe, in the history of these two countries.

I have given you a summary and the written testimony, and I think I will rest my case.

[The statement and attachment of Mr. Crowder follow:]

HEARING ON UNITED STATES-MEXICO ECONOMIC RELATIONS

Mr. Chairman, my name is Charlie Crowder and I am the President of Santa Teresa International, Inc. I sincerely appreciate this opportunity to testify at this public hearing on United States-Mexico economic relations.

Since the early 1960's, during the term of the then President of Mexico Adolfo Lopez Mateos, I have been one of the leading proponents of a large international project which is located on both sides of the international boundary in New Mexico directly adjacent to and west of the border cities of El Paso in the State of Texas and Juarez in the State of Chihuahua, Mexico. This project was envisioned and conceived in Mexico.

From this border location I have, for over 25 years, been witness to the growth of the twin plant or maquila industry in Mexico. The exploding population in this region, as well as the population growth in the rest of Mexico, unfortunately has not been accompanied by the infrastructure to support the expanding industrial, commercial and residential growth. In fact, 30 years ago infrastructure and low income housing in Juarez were inadequate to meet any reasonably acceptable standards. The increase in population and industrial growth has further overburdened the presently existing expanded infrastructure. Sewage collection was then and is now inadequate and sewage treatment is generally nonexistent in this area of Mexico. Potable water supplies are available, but distribution systems cannot keep pace with demand. Planning and funding for infrastructure and low income housing to accommodate this phenomenal growth are seriously lacking.

The maquiladora, or production sharing, activity which was initiated in the City of Juarez represents today the second-largest source of foreign currency inflows for Mexico. The City of Juarez accommodates, at this time, one-third of all maquiladora employment in the Republic of Mexico. During the term of the immediate past administration in Mexico a blue ribbon panel of private and public sector individuals was commissioned to determine the negative factors which limited the growth of this production sharing phenomena. The conclusions this panel drew were as follows. The three major constraints to the growth of production sharing were, in this order, (i) transportation; (ii) communications; and (iii) governmental red tape. We agree that these three factors represent major constraints to this industrial growth. We disagree with the number one designation and believe the deficiency in the social infrastructure should occupy the number one spot in a new list of four items. We are convinced that the social infrastructure improvements required to accommodate and accelerate the production sharing activity are equally important to Mexico's domestic economic well being in all areas of its economy. We are positive that the most important element of our economic relations with Mexico is the investment in human capital which must be evidenced by low income housing supported by adequate infrastructure. This investment in human capital must be a high priority for the private and public sectors in order to provide the basic opportunity for free trade or domestic activity to advance in a manner that benefits our relationship. Mexico's ability to raise the standard of living for its population will determine to what degree and at what time it becomes an equal trading partner with the United States.

The United States government, in the current administration, has dramatically improved its ability to deal with Mexico. In our opinion the United States government, in creating its policy for Mexico, has in the past to a large extent misunderstood and misread Mexico. Secretary of State Baker was recently quoted as saying that our relationship with Mexico should be one of seeking common opportunities rather than managing irritants. We certainly agree.

Since the inauguration of President Carlos Salinas de Gortari major and dramatic improvements in private and public sector confidence have occurred. The highest levels of his administration have demonstrated their willingness and ability to provide integrity, efficiency and social responsibility to their plan which is designed to correct the social and fiscal deficiencies inherited by them from their predecessors. The extremely high standards for public service conduct set by the Salinas administration have also been established by this administration for domestic and foreign private sector behavior. The high degree of confidence which is essential in creating security for foreign investment in Mexico is evidenced by the unmistakable and genuine efforts the highest officials within the government of Mexico are making to eliminate political franchises for private sector enterprises.

The course the present administration in Mexico has embarked on is fortified by a dynamic president who has proven his intentions by decisive and positive actions. This new government is staffed by individuals who are well educated, extremely bright and dedicated to the highest ideals. None of their programs are designed to impress the United States, but rather to improve the economy of their country and the standard of living of their population. The Salinas administration has already accomplished more in real terms than its most optimistic domestic and foreign observers expected in its entire sexenio (six-year) term.

In the United States the border states of Texas, New Mexico, Arizona and California are the best equipped to recognize and understand how critically important the future of Mexico is to our own future. I will list below the significant opportunities, identify additional problems and provide suggestions for improving our economic relationship with Mexico.

Mexico is understandably sensitive on the question of foreign investments. As you know, the first great social revolution of the 20th century - the Mexican revolution - in which more than 1 million of its citizens died, was in large part over this very issue. Nonetheless, with proper safeguards legitimate foreign private sector participation with Mexican private sector interests is a basic requirement for successful and profitable foreign investment. Participation by the foreign private sector with Mexican private sector interests must be based on the real contribution each of the parties make. These binational partnerships must rely on the merits of the enterprise, be truthfully represented, fully disclosed and not be dependent upon any form of political favoritism.

Trade barriers imposed by Mexico to protect its own domestic industry have backfired and tended to subsidize poor quality while stifling legitimate and healthy competition. Mexico has moved to correct, and in some cases eliminate, these trade barriers with very positive results. These and other measures which have been acted upon or proposed by the Salinas administration have been applauded by foreign public and private sector interests. These measures have also, to a large extent, been well received in Mexico; however, the need for change in Mexico has been and is also today being met with strong resistance in that country by elements that oppose these changes. It is important to recognize that the new policies which have been announced and publicized, and in some cases reinforced by changes in Mexican law, open the door to foreign investment and create security for new foreign investment in a manner that has never heretofore been possible. It is also important to clearly understand that our economic relationship with Mexico, especially the anticipated improvements in this relationship, must not in any manner weaken or be perceived in Mexico as weakening their sovereignty or as failing to respect their jurisdiction and their boundaries.

The public and private sectors in the United States should be made aware of the tremendous positive changes Mexico is experiencing under President Carlos Salinas de Gortari. In both of these sectors we should provide support by cooperating with and taking advantage of his initiatives, especially in the areas of improved social infrastructure and new trade and commerce.

The private sector must become more enlightened and sensitive to the social infrastructure deficiencies in Mexico and privatize the financing of this social infrastructure in a manner that fully respects the sovereignty of Mexico and equips the least advantaged of her population to obtain the ownership of decent housing at cost-driven prices. This must be done in a manner that provides clear independence from their employers to these new homeowners. These low-cost housing units must be served by all of the supporting infrastructure including water distribution, sewage collection and treatment, energy, communications, proper drainage, streets and arterials. The planning for these new urban areas is already well conceived in Mexico and must include educational, medical, recreational and commercial support within carefully defined parameters which include nearby jobs-creating activities which will reduce the necessity for major mass transportation systems.

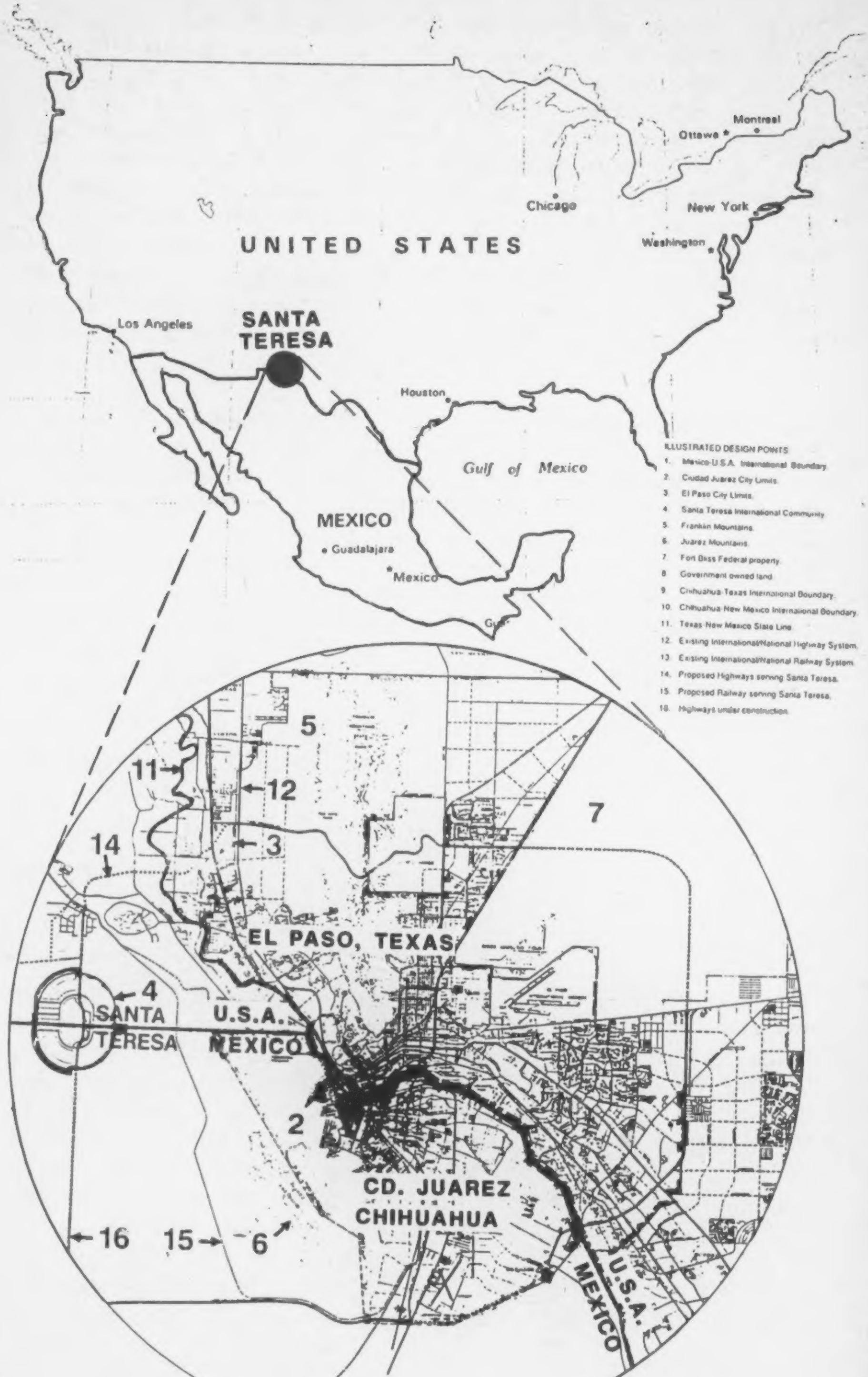
The success Mexico realizes in these worthwhile initiatives will clearly accrue to the benefit of the United States. Any failures suffered by this administration in Mexico will spell major problems for the United States. The increasing population in Mexico and the present scarcity of jobs there continues to apply pressures on our boundary via illegal immigration. All forms of illegal transborder traffic will place additional stress on our relationships. Sustained economic growth in Mexico, which respects and prioritizes social infrastructure improvements and are privatized to ensure maximum efficiency and cost-benefit ratios, will ensure continued improvement in both of our economies. The major direct beneficiary of the social infrastructure initiatives must be the least advantaged of Mexico's population and as they succeed Mexico will become a full and equal trading partner.

Our economic relationship with Mexico, as they improve their standard of living, will be advanced and we will be better positioned to create employment in our country and to more effectively compete with our own products in the world markets. The growth of jobs in the United States is dramatically decreasing and our labor movement is aware of and attentive to the need for training and retraining of our work force to more sophisticated employment. As our population becomes older the problem will not be to find jobs for people, but to find people for jobs. For many years Mexico, with its relatively young and expanding population, will complement and balance as well as provide a formidable defense to the attack on our position in the world markets.

We are all aware that the world has become politically and economically more interdependent in recent decades. However, you will pardon me for suggesting that we in the United States should be concerned. as a matter of the highest national priority, with the economic and political health of our southern neighbor. It is no exaggeration to suggest that of all the nations in the world Mexico indeed may be the most important to the national interests of the United States.

Tremendous opportunities for improved economic relations have been made available by the Salinas government. The public and private sectors in the United States must recognize these opportunities and make every effort to establish and maintain the confidence of the government of Mexico and improve and expand the private business sector relationships available to United States interests in Mexico. Failure to support Mexico's new initiatives could foreclose the best opportunities for improved relations in the history of these two countries. Mexico's failure to maintain the momentum already evidenced will have a very serious negative impact on our economy.

Again, I appreciate this opportunity to appear before you and give this testimony. I will be glad to respond to any questions you may have.


UNITED STATES
Ottawa
Montreal
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Los Angeles
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Houston
Gulf of Mexico
MEXICO
Guadalajara
Mexico
ILLUSTRATED DESIGN POINTS
1. Mexico-U.S.A. International Boundary
2. Ciudad Juarez City Limits
3. El Paso City Limits
4. Santa Teresa International Community
5. Franklin Mountains
6. Juarez Mountains
7. Fort Bliss Federal property
8. Government owned land
9. Chihuahua-Texas International Boundary
10. Chihuahua-New Mexico International Boundary
11. Texas-New Mexico State Line
12. Existing International/National Highway System
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14. Proposed Highways serving Santa Teresa
15. Proposed Railway serving Santa Teresa
16. Highways under construction
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EL PASO, TEXAS
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U.S.A.
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MEXICO
U.S.A.

Chairman GIBBONS. Thank you, Mr. Crowder.

Mr. Allen.

STATEMENT OF MICHAEL A. ALLEN, PRESIDENT, McALLEN ECONOMIC DEVELOPMENT CORP., McALLEN, TEX.

Mr. ALLEN. Thank you, Mr. Chairman.

I come from a small town in south Texas, McAllen, Texas. And my job is to recruit U.S. jobs on the border. We have about an 18 percent unemployment rate. We have about 24,000 people unemployed in a small area.

I just want to mention that in the last year, we have been the fifth largest job generator in the State of Texas after Fort Worth, San Antonio, Houston, and Dallas. And that has been because of the maquiladora auto industry. So we are the second fastest growing area in the State.

But with the increasing number of U.S. companies locating on the United States-Mexico border, our development effort is to find jobs for people on the U.S. side. And this program in the last 2 years has experienced the largest percentage of growth in all of Mexico.

I have to take exception to—and I would just like to kind of not go through the whole testimony——

Chairman GIBBONS. Certainly.

Mr. ALLEN. But respond to a couple of questions or statements that were made earlier today.

I live in McAllen. And a lot of our families have people on both sides of the border. And it was interesting that a couple of the remarks that were made by a gentleman from the UAW regarding the wage, and I would like to explain that, because I am not sure that he understood exactly how wages are computed in Mexico.

And one of it is that anything over the minimum wage is taxed. So most of the maquiladoras provide a large number, almost double that wage, by scholarships, by medical care, which includes doctors right on the premises, food allowances, food baskets, transportation allowances which are in cash, and a number of other things.

I do not want to bore the committee with a lot of the details on this, but I believe it is really important to understand that Mexico is our most important trading partner. I think the other thing is that there are 6,000 or 8,000 jobs in Illinois that still exist because there is a Zenith plant in Reynosa.

You know, 2 years ago we decided we were going to get one of these very expensive economists to come down to our community and do a study. And so we did, we recruited him from one of the major universities in Texas. And we wanted to find out what is the impact on the maquiladora on jobs on our U.S. side in McAllen. Mr. Ray Perryman said that it is almost a one-to-one match in our area. We have generated 7,000 U.S. jobs because of the maquiladora program in Edalgo County.

So we think that the the free-trade agreement is a very important one. I think it is one though that we have to do in stages. I think that we have to be very cognizant of some of the agricultural implications because Hidalgo County has the largest cash crop of vegetables in the whole State of Texas. And yet, again, I think there are things that we need to look at and study.

One of the most important things that I want to mention is that if you refer back 2 years ago to this ITC study, we found that many of the jobs are retained in the United States because they produce the parts in the United States And now we have companies coming from Taiwan and Korea, United States companies, that are locating on the border and looking to go into Mexico. So we think that there are some tremendous opportunities here.

We think that—and I appreciate Mr. Richardson's comments earlier. So often folks up here talk about the border, and they have never been there, and they do not quite understand a little bit of what is happening, especially the cultural implications. And I would invite some of the people that have a problem with that industry to talk to some of our people that have gotten jobs, and above all, to talk to some of the people in Mexico who have the jobs.

There is no easy solution to this issue of wages. But I think, on the other hand, no one complained several years when a lot of our seasonal farm workers were coming up north and working in the fields and being paid whatever the States of Illinois, Ohio, and Michigan, and whatever else wanted to pay them. Now, the economic rules have changed. We have not changed the rules. We are just trying to play by them and get jobs for our own people in Texas.

So thank you very much for allowing me to come here today.

[The statement of Mr. Allen follows:]

MICHAEL A. ALLEN
President, McAllen Economic Development Corporation
McAllen, Texas

I am Michael Allen, President of the McAllen Economic Development Corporation in McAllen, Texas, a South Texas border community representing nearly 400,000 people. I am actively involved in industrial recruitment to our area and participate in numerous Border related organizations that affect issues relating to the economic development of the U.S./Mexico border. As a Border economic developer, it is with deep concern over the direction and implication of a U.S./Mexico Free Trade Agreement that I offer my testimony today.

The McAllen-Mission-Edinburg metropolitan area is the second fastest growing area in the State of Texas. All forecasts predict that we will maintain this position through 1995. Our growing population averaging 6 percent annually, offers a young trainable workforce to companies seeking to expand operations. With an available workforce of nearly 25,000 persons, the lowest per capita income in the U.S., and our proximity to a globally competitive wage level in Mexico, the McAllen metro area is a strategic location for U.S. and International industry to locate.

With this in mind, in January of 1988 the City of McAllen restructured the industrial recruitment effort for our area by substantially increasing the budget and instituting an aggressive marketing approach. With the increasing number of U.S. companies locating operations on the U.S./Mexico border, the City of McAllen's industrial development initiative was launched to increase the number of new jobs in an area of very high unemployment.

Since then, the McAllen Economic Development team has recruited 26 new companies generating nearly 7,000 jobs. The development of infrastructure to provide industrial site selection, the labor availability, the expansion of our international bridge and plans for two additional international ports of entry, and the quality of life found in McAllen make the McAllen/Reynosa area the "gateway" to the expansion of the Maquiladora Program on the U.S./Mexico border. In fact, for the last two years, we have experienced the largest percentage of maquila growth in all of Mexico.

While its true that most of these direct jobs are in Reynosa, Tamaulipas, Mexico, and while its true that the bulk of the capital investment is also in Mexico, it is also true that a March 1989 study conducted by Dr. M. Ray Perryman, to determine the economic impact of the Reynosa maquiladoras to the McAllen-Mission-Edinburg MSA, showed that for every one job created in Reynosa creates one job indirectly in our community.

Much success on the U.S. side can be attributed to the maquiladora program. The McAllen Foreign Trade Zone, one of the largest dollar volume zones in the U.S. had operated for nearly ten years with a 30 percent occupancy. Since 1989, we reached a 100 percent occupancy and new facilities have had to be built. The City of McAllen has developed a second 80 acre tract outside the zone for new industry.

Our office averages two plant locations per month. These new companies within six months will employ at start-up 350 people on the average. Expansions of existing companies occur within two years of location and double the employment of their operations.

In our effort to create jobs by diversifing our border economy, it is of critical importance that the protection of this maquiladora program be part of any framework in U.S. Mexico trade negotiations.

The establishment of manufacturing operations within our international community is attracting a network of suppliers interested in locating on the U.S. side. This process of economic growth will continue only if there exists enough incentive to do so.

A broad free trade agreement taking immediate effect may undermine any U.S. Mexico border development program. I, respectfully request that much consideration be given to any bilateral trade agreement and its impact to our border economy.

The border region should not be considered as territory of 20 to 200 miles north of the U.S. Mexico International boundary. Instead, the U.S. Mexico border region consists of sister communities that have interdependent economies and societies. These international trade centers of which McAllen/Reynosa is one, are communities enhancing an international trade environment by promoting the import and export of goods from the U.S. and Mexico.

This concept is attracting investment and thereby creating jobs on both sides of the border. In fact, this environment saves thousands of U.S. jobs by offering an alternative for U.S. industry to locate and remain globally cost competitive. The proximity of our trade centers to U.S. manufacturing centers in many Northern states offers new opportunities for U.S. companies to supply international investment.

Interestingly enough, companies from Taiwan and Korea have targeted our area as a strategic location in which to manufacture in the Western Hemisphere.

Providing for the increasing demand by companies in areas critical for maintaining competitive production such as; education and infrastructure is the challenge. A free trade agreement with Mexico cannot ignore the unique needs in the border region. To do so would promote chaos, defeat the success of the growing border trade centers, and create poor living conditions for millions of people that live on both sides of the border.

Mr. Chairman, I would like to congratulate you and the committee on the timeliness of these hearings. It is essential for us to seize the opportunities in creating greater economic ties with Mexico. In looking to the future, a North American Common Market is inevitable. The negotiations that ensue in reaching an FTA with Mexico, must include areas before mentioned, such as agriculture, tariffs and non-tariff barriers, investment, and services. In addition to these, the protection and importance of the border trade centers that exist for the most part as binational socioeconomic models for the U.S. and Mexico must also be addressed.

Leaders in the McAllen/Reynosa area are developing ideas to offer the Committee, Border Trade Alliance, and other interested parties our position during the negotiation process. It is our goal that the Trade Centers along the U.S. Mexico border will provide a unified position that will be accepted as one that works in the best interest of both the U.S. and Mexico by achieving an agreement that will position our countries as an economic trading bloc.

Those of us that live on the U.S. Mexico border offer a valuable perspective. We cannot and will not sit idly by as the United States proceeds with an economic initiative with Mexico, a country in which many of us have developed strong relationships. For the economic security of our trade centers and the population that these centers affect, it is our responsibility to ensure the quality of life there.

We share a sincere concern for any initiative that may impact Mexico. As communities that have shared socioeconomic ties for generations whatever affects Mexico directly affects us.

I would like to thank the committee for acknowledging a border perspective on this issue and offer my expertise and services in the ongoing free trade initiative.

Chairman **Gibbons**. Thank you, sir.

I think you could help us a lot. Because one of the problems that we are going to face here in Congress is this matter of standard of living differences and particularly wage differences. Much will be made out of that.

As I understand what you are saying, while wages generally and the standard of living generally is lower in Mexico than it is in the United States, take-home pay versus take-home pay are really not comparable because of the tax system that encourages in-kind services like health care and food and other things.

Can you elaborate a little on that. I have been to the border and seen that. But I would like for the record to reflect what the changes are, the differences are.

Mr. **Allen**. Well, Mr. Chairman, the average wage right now, loaded wage, is around $1.30, $1.40 an hour. The paid wage may be 70 cents. But the other 70 cents might be, for example, maybe 25 to 3,000 pesos for a transportation allowance.

The other thing is that the doctor is on staff right there in the plant. And they are air-conditioned plants. And they are not child labor abusers or some of the things I have heard. They also have scholarship benefits. They have death benefits.

And of course these are not great. And I am not saying that this wage is adequate. I am just saying that the value of that $1.40, if you think about it, is probably worth the same value of the minimum wage in the United States on the U.S. side. You have got to compare and apples, and not, you know, apples and oranges on that situation.

The other thing that I do not agree with is that the wage that is paid in the maquiladora is one-third of the interior of Mexico. That is the opposite. If you look at a comparison of businesses throughout Mexico, the maquilas rank very well in paying the wages there.

Mr. Chairman, I am not sure whether I have explained this totally in terms of the wage benefits, but maybe if you have something more specific, I could try to answer it.

Chairman **Gibbons**. Essentially you are saying that up to the minimum wage in Mexico, the statutory minimum wage, the Mexican Government does not tax that wage.

Mr. **Allen**. Does not tax it, yes.

Chairman **Gibbons**. So in effect what it encourages is the substitution of in-kind for that above the so-called statutory minimum. And that is what causes take-home pays to look different.

Mr. **Allen**. Yes, sir. And that part is not taxed. And this is done by most companies in Mexico as a matter of fact.

Chairman **Gibbons**. That is interesting.

Mr. **Crowder**. Mr. Crane.

Mr. **Crane**. I have no questions.

Chairman **Gibbons**. Mr. Richardson.

Mr. **Richardson**. Thank you, Mr. Chairman.

Mr. Chairman, I wish to commend you for holding these hearings once again and having individuals like these two, Mr. Allen and Mr. Crowder, who directly live with the problem that we are talking about. They know best how the United States and Mexico can interact economically. They are on the front line.

And I think especially more from my experience, Mr. Crowder, who as I mentioned before, is one of those visionaries who years ago started recognizing the enormous potential for border trade, border economic development. And he said, on our side of the border, a development called Santa Teresa, which will hopefully house and will bring forth a lot of the economic activity that will take place among borders, especially if we get a free-trade agreement.

This development is environmentally sound. And the President of Mexico in his recent visit to the United States announced that there will be shortly favorable decisions on the Mexican side. And the United States side announced concurrently of additional border crossings. And President Salinas is committed to aid across the Mexican-United States border in several other States. And I think it shows his commitment, President Salinas' to really try to deal with economic issues, job creation, by stimulating border activities.

I would only have one question to Charles Crowder, and that is what is your view about the potential for other border crossings in other States? We have this one in New Mexico that you will be opening, hopefully another one in the Mexico-Texas border, Anapra. Could you tell this committee what a border crossing could potentially do for economic development right at the border.

Mr. CROWDER. Certainly. First of all, while these projects are on the border, they are border projects, they really become conduits for international trade and commerce. And probably the key, the most important single element that I believe answers to some degree the chairman's question about the disparity in the wages, is the character, the principle, and the will of the private sector in both countries to contribute to the social infrastructure, not as welfare, and not as a Government program, not as a grant, but as an investment in human capital.

Each of these border projects that Mr. Richardson is talking about, the existing ones and the proposed ones, must include on both sides of the border the social infrastructure to support that activity. And especially in Mexico we need to reduce the cost to the least advantaged of that country for the basic housing, water, sewer, energy, communications.

Now, this is not, again, welfare. It is an investment in human capital that will pay dividends to the developers or to the entrepreneurs who undertake it. But without that responsibility and without that will, I do not believe you are going to have an economic success in either country.

The thing that Congressman Richardson noted—and I of course agree—the border States and the people live on the border in the United States I think have a much clearer understanding of how critically important Mexico is and its economy is to the economy of the United States. And I think the most important thing, from my standpoint, that this panel could hear from you today is the genuine and sincere and real opportunity President Salinas has brought to this table.

If anybody questions his integrity or the integrity of his Government, they simply have not been listening or watching. Because he did not come here to impress us. He did not come up and give us a snow job. He has done a tremendous amount of work. He is young, he is bright, he has a great amount of integrity. His Government is staffed by extremely well-educated, also extremely bright, and dedicated men to ideals. They did not do that to impress us. They are sincerely trying to raise the standard of a population, a standard of living, and improve their economy.

Their gain is our gain; their loss is our loss. And I do not think that it is all wages. That has got something to do with it. The social infrastructure and the will of the private sector to make good will make each of these border crossings a true conduit for international trade, not only between Mexico and the United States, but for the nations in this hemisphere.

Thank you.

Chairman GIBBONS. Thank you all very much.

For the record, Mr. Crowder, there are a lot of fine Crowders down in my area. I have them as personal friends. Are you kin to any of them down there.

Mr. CROWDER. I looked into my background, and when I got into some people that dealt in horses, I quit looking.

Chairman GIBBONS. Well, if you ever get over toward Tampa, you ought to look them up. They are fine people.

Mr. CROWDER. Thank you.

Chairman GIBBONS. Thank you, Mr. Allen, too.

Our next panel consists of the Motor & Equipment Manufacturers Association, Mr. Bates; the Florida Fruit & Vegetable Association, Frank Bouis; the Oklahoma Steel & Wire Co., Max L. Moore; Vitro of Monterrey, Mexico, Mr. Rangel; and Mr. Glick of CONACEX.

Thank you very much. Mr. Bates.

STATEMENT OF CHRISTOPHER M. BATES, DIRECTOR, POLICY ANALYSIS, MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. BATES. Yes, good morning, Mr. Chairman.

The Motor & Equipment Manufacturers Association welcomes the opportunity to present its views to the House Subcommittee on Trade regarding United States-Mexico economic relations with specific reference to our industry, the motor vehicle components manufacturing industry.

Two-way trade in automotive parts accounted for approximately $8 billion or 15 percent of total United States-Mexico trade in 1989. Mexico has sustained trade surpluses in this sector in excess of $1 billion since 1986. At the same time, Mexico is the largest United States export market after Canada for United States manufacturers of motor vehicle parts and accessories, and it is the third largest source of U.S. imports of these products after Japan and Canada. We also as an industry have an extensive stake as investors in the Mexican market, both in terms of the auto parts sector in central Mexico as well as the in-bond industry.

MEMA has begun its own intensive internal review of this matter and is now working with U.S. trade officials and Members of Congress to ensure that specific issues of interest and concern to our industry are considered fully in the administration's and congressional policy review process. MEMA greatly appreciates the efforts of this subcommittee, its chairman and other Members of Congress to reinforce the administration's commitment to work with us and other producer interests in the country in exploring the importance of this issue.

There has been some previous discussion here today about the evolution of Mexican policy in the automotive sector. Suffice it to say that we have seen significant liberalization, but we also feel that the Mexican Government has maintained in place a number of regulatory policies which will continue to have the tendency to shift trade overall in its favor. Of particular interest and concern to us are the new trade balancing requirements in Mexico's auto and transportation sector decrees which were released last December.

It is not clear either that there has been the extensive deregulation in Mexico's treatment of foreign investment treatment within our industry. That is an area that also requires particular focus, both by us and by interested members of the administration and Congress.

We think a critical issue, again highlighted earlier today, is the difference in the level of employee compensation, productivity, manufacturing capability between our two economies. We will be looking at that very closely. Obviously there is a lot of complementarity which is in place now that is expanding on its own impetus. A free-trade agreement conceivably could advance that process further, but it is something that needs to be explored very carefully.

I would like to conclude by noting there are several features of Mexico's new automotive decrees and maquiladora decree that we believe need to be examined with particular care. The first of these is the direct linkage of future investments by vehicle assemblers to the new trade balancing formula in the auto industry decree. Second, adjustments in the definition of the auto parts industry of local content requirements, and of foreign equity restrictions affecting the auto parts sector. And third, provisions in the maquiladora industry decree which link increased access of maquila operators to the Mexican domestic market to growth in exports and value added in their maquiladora production facilities.

As I believe one other speaker today highlighted, we see a critical need for a strong, workable rule of origin in any United States-Mexico free trade agreement. We are in the process of working with Canadian automotive interests to determine whether or not we ought to increase the rule-of-origin in that agreement. In any case, we believe there is a need for consistency in terms of the basic approach taken. There is no need to have two or three different types of rule of origin requirements within the context of North America. And we think also that any rule of origin with regard to Mexico should probably be at least as strong as what we have with the Canadians.

As final issue, I would like to put particular emphasis on locking in the reforms which have taken place in Mexico to date in terms of tariffs and the import licensing. Obviously there also is a need to make important gains in some new areas, such as the investment, trade balancing, and local content issues which I mentioned earlier. Thank you very much.

[The statement of Mr. Bates follows:]

MOTOR AND EQUIPMENT MANUFACTURERS ASSOCIATION

Prepared Statement on U.S.-Mexico Economic Relations of
Christopher M. Bates, Director, Policy Analysis

Before the House Subcommittee on Trade,
Committee on Ways and Means

June 28, 1990

The Motor and Equipment Manufacturers Association (MEMA) welcomes the opportunity to present its views to the House Subcommittee on Trade regarding U.S.-Mexico economic relations with specific reference to the motor vehicle components industry.

Founded in 1904, MEMA is the only association which exclusively represents and serves the needs of U.S. manufacturers of motor vehicle parts, accessories and allied products. MEMA members supply both original equipment components and systems to vehicle manufacturers and replacement parts and accessories to the aftermarket sales and service industry.

Two-way trade in automotive parts accounted for approximately $8 billion or 15 percent of total U.S.-Mexico trade ($52 billion) in 1989. Mexico has sustained trade surpluses in this sector in excess of $1 billion dollars since 1986.

Mexico is the largest U.S. export market ($3.5 billion), after Canada, for U.S. manufacturers of motor vehicle parts and accessories. Mexico is the third largest source of U.S. imports of these products ($4.5 billion) after Japan and Canada. In addition, U.S. automotive suppliers have a major investment stake in the Mexican motor vehicle and maquiladora (in-bond) industries.

For these reasons, MEMA and its members are very interested parties in the emerging debate over the economic merits of a comprehensive U.S.-Mexico free trade agreement (FTA).

MEMA has begun its own intensive review of this matter and is working with U.S. trade officials to ensure that specific issues of concern to American parts manufacturers are considered fully in the Administration's policy review process. MEMA appreciates the efforts of Chairman Gibbons and other members of the Subcommittee to reinforce the Administration's commitment to consult with U.S. private sector groups regarding a possible FTA with Mexico.

Evolution of Mexican Auto Sector Policy

MEMA has closely monitored the evolution of Mexican policies toward the automotive sector for many years. Historically, these policies have encouraged extensive import substitution and, more recently, export promotion as a means to develop local manufacturing capacity and produce a balance or net surplus in sectoral trade with other countries.

During the 1980s, restrictive Mexican auto decrees and the downturn in Mexico's economy eliminated the historic U.S. surplus in auto parts trade with Mexico and encouraged increasing U.S. sectoral trade deficits. Mexico's 1983 decree effectively shifted the policy emphasis from import substitution to export promotion, without abandoning longstanding local content policies, product-specific import licensing controls, or restrictions on foreign investment.

Since 1986, Mexico has lowered its tariffs and liberalized its licensing controls on imports of most industrial products, including motor vehicle parts and accessories. This policy adjustment, in conjunction with higher levels of local vehicle output and sales, has contributed to a $1.4 billion expansion of

U.S. parts exports to Mexico during the past two years. However, Mexico continues to maintain over a $1 billion surplus in its motor vehicle parts trade with the United States.

In December 1989, Mexico published two new decrees which separately cover the light/medium and heavy vehicle manufacturing industries. It also issued a new maquiladora (in-bond) industry decree.

These decrees have been characterized by U.S. and Mexican officials as trade-liberalizing and deregulatory in nature. These elements are clearly present in these decrees. However, the implementation process must be monitored closely to determine the extent of actual trade liberalization and deregulation.

Moreover, U.S. officials must recognize that the Mexican Government has maintained important regulatory controls and trade restrictions which will continue to influence bilateral trade and investment flows. This is particularly true in special sectors such as the motor vehicle industry, where Mexico has a longstanding record of tight regulation and of restrictive trade and investment practices.

Accordingly, MEMA urged the Administration not to expand Mexico's GSP benefits in the automotive sector this year. MEMA believes the Administration's recent decision to reinstate duty-free GSP benefits on $426 million in auto parts imports from Mexico was an ill-timed and exaggerated response to the still tentative policy reforms being launched in Mexico. This action may have an adverse impact on U.S. automotive suppliers, while fueling parts industry concerns about the much greater economic adjustments implied by an FTA with Mexico.

Guidelines for Analysis of New Mexican Auto and Maquiladora Decrees

An important first step in analyzing the potential impact of a U.S.-Mexico FTA on U.S. auto parts suppliers is to assess the trade, investment, and other economic effects of Mexico's new motor vehicle industry and maquiladora decrees.

In December, Mexico published two new motor vehicle industry development decrees which establish new regulatory frameworks for:

1) the passenger car and light- and medium-duty truck assembly industry beginning in November 1990 [Model Year (MY) 1991]; and

2) the heavy truck and bus assembly industries beginning January 1, 1990.

The decrees supercede Mexico's 1983 auto industry directive and related government regulations.

Both decrees expand the ability of Mexican vehicle assemblers to select the most internationally competitive sources of material and parts supply, provided they maintain a trade balance. The decrees also modify local value-added and trade balancing requirements in an effort to stimulate increased exports and foreign investment.

Key provisions of the decree aimed at the light- and medium-duty vehicle industry include:

-- Permission for vehicle assemblers to determine which types of vehicles they will build in Mexico and to complement local production with limited imports (up to 20% of each firm's Mexican sales in MY 1993 and beyond) **if they meet specific trade balancing requirements.**

-- Allowance for vehicle assemblers to credit up to 20% of annual net exports generated by their maquiladora (in-bond) plants and up to 30% of approved new local investments toward meeting trade balancing requirements.

-- Reduction of the required local value-added requirement for light and medium-duty vehicles to 36% in MY 1991 and beyond, calculated as the sum of each vehicle assembler's net exports plus the value-added in original equipment (OE) parts purchased from Mexican suppliers.

-- Definition of local auto parts manufacturers as firms supplying parts, components, and assemblies whose operations result in at least 30% value-added in Mexico (defined as domestic OE sales plus net exports) and which are less than 50% owned by vehicle assemblers.

-- Repeal of previous Mexican executive decrees listing specific components which vehicle assemblers must procure from local sources.

-- Removal of the ban on installation of gasoline engines on medium-duty trucks as of December 31, 1991.

Major features of the decree for the heavy-duty vehicle sector include:

-- A greatly reduced 40% minimum value-added requirement for buses, heavy trucks (gross vehicle weight over 8,864 kg), truck tractors, and special purpose motor vehicles.

-- Removal of the ban on installation of gasoline engines in heavy-duty trucks as of January 1, 1992.

-- An allowance for heavy vehicle assemblers to import vehicles of the same class as they build in Mexico, provided the total value of such imports does not exceed their local value-added in any given model year. This rule expires for buses on January 1, 1991, for truck tractors on January 1, 1992, for buses on January 1, 1993, and for heavy trucks on January 1, 1994.

More detailed implementing regulations for both decrees are expected to be issued later this year. MEMA will work closely with the Administration and Congress to determine their likely impact on U.S.-Mexico automotive trade and investment and U.S. parts producers.

The Mexican Government also has issued a new maquiladora industry decree, effective last December, which is designed to promote expanded exports from and foreign investments in this rapidly growing economic sector. The decree streamlines regulations for approval of new and expanded in-bond facilities and allow maquila operators to sell more of their output into the Mexican market in tandem with growth in their exports and use of local materials and components.

Several features of Mexico's new motor vehicle and maquiladora industry decrees merit special analysis, as they are likely to have a particularly important influence on U.S.-Mexico trade and investment flows. These include:

1) The direct linkage of certain new investments by vehicle assemblers to the revised trade balancing formula in the auto industry decree;

2) Adjustments in the definition of the auto parts industry, of local content requirements, and of foreign equity restrictions affecting the auto parts sector; and

3) Provisions in the maquiladora industry decree which link increased access to the Mexican domestic market to increased exports from in-bond plants.

Definition of U.S. and Mexican Negotiating Objectives for an FTA

Another important element of U.S. preparations for a possible FTA with Mexico should be a thorough investigation of U.S. and Mexican negotiating objectives in key manufacturing sectors, including the motor vehicle and parts industries. This analysis should include a study of the economic tradeoffs and opportunities for the U.S. and Mexico if stated negotiating priorities are in fact fulfilled.

The central issue which must be addressed in any comprehensive U.S. trade agreement with Mexico is the wide disparity in the level of economic development, worker compensation, and productivity between the two countries. This issue should be analyzed on both a macro and industry-specific basis, and incorporate comparisons with other countries which are Mexico's primary competitors in the U.S. market (i.e., newly industrialized countries of Asia).

Mexico's stated negotiating priorities also need to be examined in detail. Earlier this year, Mexican Trade Minister Serra outlined several broad negotiating objectives which have potential relevance to U.S. motor vehicle and parts manufacturers. These include:

1) Permanent elimination of tariffs for Mexican products (Mexico now receives revocable, duty-free treatment for its exports of many automotive parts under the U.S. GSP program);

2) Removal of U.S. non-tariff trade barriers (Mexico has cited the exclusion of Mexican small cars from the "domestic fleet" definition under U.S. corporate average fuel economy regulations as such a barrier); and

3) Other initiatives, including special co-production arrangements, to integrate Mexican and U.S. production in key sectors, including the motor vehicle and parts industry.

The third Mexican priority, co-production, involves both expanding use of Mexican materials and components by the maquiladora industry, and better linkage of Mexican facilities outside of the in-bond framework with the U.S. manufacturing base and market.

This may be an area where an FTA with Mexico could break new ground, but it also is a matter of great uncertainty and concern among U.S. automotive suppliers and American workers. Concerns stem not only from fear of low Mexican wage rates, but also from evidence of a steady expansion of Japanese parts manufacturers into Mexico's maquiladora industry.

A key test of the viability of the co-production concept will be the degree to which mechanisms can be developed which: 1) go beyond present in-bond border industry arrangements; and 2) offer U.S. manufacturers more balanced opportunities to gain access to Mexico's domestic market. While some U.S. automotive suppliers are active participants in Mexico's maquiladora program, the current format does little to help U.S. producers gain meaningful access for co-produced final products into the Mexican domestic market.

U.S. negotiating objectives with respect to the motor vehicle industry would need to take into account the probable impacts of Mexico's new auto industry, maquiladora, and technology transfer decrees.

As in the FTA negotiations with Canada, development of strong rules of origin for automotive products should be viewed as a critical component of any U.S.-Mexico trade agreement. This rule should be structured in a manner consistent with the U.S.-Canada FTA rules and provide at least as stringent qualifying rules for any negotiated tariff preferences.

Another starting point for defining U.S. negotiating objectives for the motor vehicle sector could be to consider how an FTA with Mexico might complement the U.S. negotiating stance in the GATT Uruguay Round in the areas of:

-- tariffs (reduce levels and bind against future increases)

-- non-tariff measures (i.e., eliminate import licensing)

-- trade-related investment measures (i.e., phase out local content and export performance rules and remove foreign equity investment restrictions)

-- improved protection of intellectual property rights.

Canadian Interest in U.S.-Mexico FTA Talks

Through MEMA's conversations with Canadian motor vehicle industry officials, it is clear that Canada has a very strong interest in U.S.-Mexican discussions regarding a possible FTA. This interest reflects the very high degree of integration between U.S. and Canadian production in the parts and vehicle assembly industries.

MEMA, through membership on the Select Auto Industry Panel established under the U.S.-Canada FTA, is engaged in industry-to-industry deliberations regarding the merits of increasing the automotive rules of origin in that FTA from 50 to 60 percent. Canadian suppliers have joined MEMA in supporting this effort.

Canadian producers therefore would likely share MEMA's concerns if a future U.S. trade agreement with Mexico failed to include a strong rule of origin requirement to limit possible transhipment of Mexican assembled vehicles and components without substantial North American (U.S., Canadian, Mexican) value-added.

Concluding Remarks

The Motor and Equipment Manufacturers Association plans to consult closely with U.S. Government agencies as they explore the economic opportunities and risks which an FTA with Mexico would present. As members of this Subcommittee stated clearly last week, it is essential that the U.S. Government undertake a very thorough examination of the issues affecting labor and producer interests.

Chairman GIBBONS. Thank you, Mr. Bates.

Mr. Bouis, glad to have you here.

STATEMENT OF FRANK BOUIS, PRESIDENT, FLORIDA FRUIT & VEGETABLE ASSOCIATION

Mr. BOUIS. Thank you, Mr. Chairman.

Mr. Chairman, members, I am Frank Bouis. I am the president of the Florida Fruit & Vegetable Association. But in real life, I am a citrus grower from Lake County, Florida, which is to the northwest of Orlando. And it is about an hour northeast of Hillsboro County, the home of our chairman.

Mr. Crane, I will tell you uncategorically that there is citrus in central Florida, although keeping it is tough. But it was not put there easily or quickly. It was not a gift of God. The climate and the soils were a gift. But the rest of it came from work, and it will be put back the same way.

Mr. Chairman, I am so delighted to find that you are our chairman because you will be able to interpret for me the truth of the things that I am going to try to say about Florida agriculture. And though I am going to speak about Florida agriculture, many of my remarks are applicable to fruit and vegetable production all across the United States.

Florida is not a land only of condominiums or beaches. Most of Florida is rural country whose occupation is agriculture, and the service of agriculture. And Florida's agriculture is devoted to providing fruits and vegetables, citrus and winter vegetables. And by winter we mean from about November until May or perhaps the middle of June. Florida's production goes all through the United States of America, Canada, with some exports of abroad.

Our crops are citrus, strawberries, melons, tomatoes, peppers. I am a bit sorry that I was not on Mr. Vanik's panel, because of two reasons. One is I would have liked to have had the opportunity for him to hear me say that he is misinformed, misguided, and/or misleading. Second, I would like the opportunity to debate with Mr. Vanik some time.

The fact of the matter is that Mexico penetrates the United States market for fruits and vegetables freely. Year by year irrespective of freezes, the dollar and the tonnage volume of Mexican exports into this country grows. Little of it represents an increase in the United States per capita consumption of fruits and vegetables.

Because of world economic and other reasons, most of the Mexican exports of agricultural products into this country are vegetables and not citrus, but there is not a year that goes by that efforts or consideration are not made to circumvent CBI by shipping Mexican fresh citrus into Belize there to be transformed into concentrate and to come into this country duty free.

There is no reason whatsoever not to believe that, if Mexico were placed on an equal footing with U.S. producers or with CBI producers, that citrus would not have the same type of export development as is now the case with vegetables. The fact of the matter is, as Mr. Crane pointed out—and it is a fact of life, it is not a thing to be deplored, it is a thing of reality—that agriculture, and especially fruit and vegetable agriculture with its high labor input in an industrialized country such as this or such as Japan or such as the European Community, is a difficult activity. It is difficult for it to continue.

And yet I think there is not any one in this room that would like to see U.S. agriculture go away. I do not think there is anybody in this room that would like to see the American food supply, all of it or even most of it, come from abroad. I think everybody in this room believes that the American-produced food is good, safe, supports the economy, the balance of trade, all these wonderful things. And yet the issue that we are discussing here is how much of it will be shifted from U.S. production to production in some other place.

In our written testimony, I have named these considerations, these economic burdens that are placed upon the American farmer. I have not named all of them. There are others. There are social ones, there are geographic ones, there are geopolitical ones.

Mexico—I belabor Mexico only because that is the issue of this hearing. I would take much the same position on others. Mexico does not have the impediments, the economic impediments, that we do have. They already penetrate our markets freely. Grades and sizes of tomatoes are not a problem for Mexican entry into this country. A year ago approximately $100 million of Mexican tomatoes came into this country. This year, that we are now in, $200 million came in. The difference, of course, was the Florida freeze. There were not any problems of market penetration.

The end result of continued shifting the balance of the competitive positions between the American producer, the Florida producer, and the foreign producer, the Mexican producer, will be a continued loss of agriculture in my part of Florida, in all of Florida.

It costs in dollars about $4,000 to $5,000 an acre to plant a citrus crop. It is risky. My county alone lost 130,000 acres of citrus trees over a period of 3 years. That is something that is approximately the size of the California citrus industry. There was no cry to Washington for help, for relief. There was only the intention to go back and find new risk capital and go back into business. And your chairman will tell you this is true.

But to the extent that you raise the burden, that you increase the risk factor, to that same extent do you preclude that needed risk capital from coming in, to that same extent do you doom central Florida and perhaps south Florida to be a land of mobile homes, condominiums, unemployed field workers whom you cannot retrain very readily, and I do not think you can retrain in this generation.

I do not want this. And I do not think anybody in this room wants this. And I do not think Chairman Gibbons wants this. It disturbs me that I am the only farmer, I think, that is here, that has been here in these two hearings. And I would hope that as you continue your deliberations, as you deal in theories and idealisms and hopefulnesses and brave new worlds, that you listen to somebody to tell you what the reality is about the people in this country that are affected.

Free trade sounds good. I think it is marvelous. I love efficiency. But every industrialized country in this world—Japan, European

Community, and the United States—recognizes that the problems of fruit and vegetable agriculture in an industrialized country are special ones. And they have devices for protecting that because they think that is a good thing to keep in their country. And I do too.

Thank you for hearing me.

[The statement of Mr. Bouis follows:]

STATEMENT OF FRANK BOUIS, PRESIDENT
THE FLORIDA FRUIT & VEGETABLE ASSOCIATION

Mr. Chairman and members of the Subcommittee, my name is Frank Bouis, and I am President of the Florida Fruit and Vegetable Association (FFVA). I am pleased to appear before you today to discuss U.S.-Mexican trade relations.

The Florida Fruit & Vegetable Association is a growers association whose members produce a substantial portion of the fruits and vegetables grown in Florida. The Farmgate value for Florida Citrus was $1.8 billion in the 1988-89 season and for vegetables and small fruits, $1.3 billion, for a total of over $3.1 billion. The fruit and vegetable industry in Florida is an important contributor of income and employment for the State. A significant portion of the production is sold outside of Florida, including foreign countries. As a result, the Florida fruit and vegetable industry generates a substantial amount of "outside" income for the State of Florida.

As farmers and citizens of Florida, generally we are located in rural areas where agricultural activities are significant. Many businesses such as suppliers, bankers, brokers, stores, real estate people, are directly tied to our successes. When we do good, so do they. When we are hurt, they hurt too.

Florida's chief competitors for the U.S. market are Brazil for citrus and Mexico for vegetables (and potentially for citrus also). Back in history, Florida was the major supplier of fresh vegetables for the Winter vegetable market. They no longer are. In virtually all categories of fresh vegetables, Mexico is now the major supplier of Winter vegetables for the U.S. market and to a great extent for the Canadian market also. Canada is a significant market for Florida's fresh fruits and vegetables.

At your June 14th hearing, you heard testimony to the effect that a Free Trade Agreement would have no effect on U.S. fruit and vegetable growers since Mexico produced their fruits and vegetables during the U.S.'s "off season."

This is not so.

Mexican competition over the past decade or so has already had an effect on U.S. Winter fruit and vegetable producers and will have a devastating effect on the U.S. producers for the Winter market located in Florida, California, Arizona, and possibly in Southern Texas. Florida producers have not been able to maintain their U.S. market share against Mexican competitors.

A recent publication entitled U.S.-Mexican Trade and Investment Issues issued by the Office of the United States Trade Representative, Office of North American Affairs, in February 1990, states that

> Mexico is also the principal supplier of fresh fruits and vegetables to the United States, which accounts for over 90% of Mexico's total agricultural exports.

Mexico is the third largest trading partner of the United States, and a significant part of that trade is agricultural.

In the U.S. as a whole, U.S. Department of Agriculture (USDA) figures reveal the farmgate value of U.S.-produced fruits and vegetables is over $18 billion. This means that Florida production is approximately 16% of the entire U.S. production of fruits and vegetables. When Winter production in California, Arizona and Texas is included, the potential for disruption of the total U.S. production is over 25% and for Winter production is 100%. The impact of Free Trade with Mexico is significant to U.S. producers of fruits and vegetables, and particularly, to Winter producers.

FFVA has long been on the record for free trade, providing all participants are playing by the same rules and the playing field is "fair." We do not fear competition--we do fear government interference resulting in U.S. producers not being able to play by the same rules as our foreign competitors. That has been the case up to now in spite of all our protestations and we are, therefore, not optimistic that we will be able to do so in the future, and particularly, under so-called "Free Trade."

We see many hindrances to this even playing field we seek in any Free Trade Agreement. Some of the major problems in Free Trade with Mexico include:

1. Differences in perceptions on Food Safety.

As a result of U.S. consumer paranoia on Food Safety, overreaction by U.S. regulatory authorities has resulted in a severe reduction in the tools available for U.S. producers to grow fruits and vegetables. This has and will continue to result in tremendously increased costs of production units.

Mexican producers do not have the same restrictions as U.S. producers and are using the tools we are not able to use. The recent U.S. restrictions on the use of EBDC's is a case in point. Better import enforcement of chemical residues is not an answer to this problem. A more realistic attitude by our own government regulatory agencies is one answer; the other is to ensure foreign producers of fresh produce for the U.S. market comply with the same regulations and restrictions U.S. producers comply with.

2. Differences in cost of compliance to growth management and water management policies.

Another major challenge to Florida growers now and in the immediate future is not the actual growing of crops. It is the cost of obtaining knowledge of and of complying with the increasingly voluminous and intricate laws and regulations that apply to growth management and to water management. We believe our costs of compliance are substantial and increasing.

3. Difference in labor costs.

Florida workers can earn more in one hour than Mexican workers do in an entire day. In addition, Mexican producers are not saddled with other labor benefits such as high Minimum Wage laws, Social Security, Workers' Compensation, Unemployment Insurance, and in many cases, health insurance. Additionally, there is considerable cost of compliance to U.S. producers caused by the Migrant & Seasonal Farm Worker Protection Act (MSPA), Housing and Field Sanitary regulations, the Occupations Safety & Health Act, Child Labor laws, the 1986 Immigration Reform & Control Act, Motor Carrier Safety laws, the Hazardous Communication Act, and various State and Federal Discrimination and Human Rights Acts.

There are other inequities but the above will illustrate our position that it is virtually impossible to have a truly "Free" Trade Agreement unless the additional cost of compliance to the factors enumerated here is built into those "free" trade mechanisms so that Mexican and U.S. Winter fruit and vegetables producers are on an even footing.

An additional thought: U.S. Agriculture for years has been short of legal labor. So have other industries. The supply used in Agriculture has come primarily from Mexico, both legally and illegally. This shortage of legal workers will continue and probably worsen as the years go by. If we are going to truly negotiate a "Free" Trade Agreement with Mexico, should not serious consideration also be given to the "Free" movement of workers between countries? Otherwise, how can there truly be a "Free" Trade Agreement?

This Association is for the concept of "free trade" but under existing circumstances does not see how this can be accomplished with Mexico unless the U.S. is prepared to lose completely Florida's over $3 billion fruit and vegetable industry and similar industries in our other States along the Southern border of the U.S.

We respectfully request you seriously consider the drastic effect a Free Trade Agreement would have on Florida and, in particular, Florida's fruit and vegetable industry.

Mr. Chairman, we believe in free trade, but for there to be free trade in Winter fruits and vegetables, there must be parity between U.S. and Mexican growers. Issues such as labor (supplies and cost), grading and quality, inspections, phytosanitary standards, pesticide availability and use, environmental costs, must be considered and addressed if there is to be any meaningful movement towards free trade.

Mr. Chairman, we rely on your good offices to ensure that these very important issues are considered and debated before any formal decision to go forward is given.

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Chairman GIBBONS. Thank you. I assure you, Frank, that all farmers are invited to these hearings. I am glad you are brave enough to come. We have not subpoenaed any, but we do need to hear from them. And I do know that the Florida fruit and vegetable farmers have been heroic in carrying the no-subsidy agriculture banner, and that we do have a lot of penetration of foreign agriculture into the United States.

So it is going to be carefully thought out. I think my district raises one-fourth of all the strawberries in Florida, and that equates to one-fourth of all the strawberries in the United States during certain seasons of the year. And Mexico is coming in more all the time.

Mr. BOUIS. Yes, sir, they are.

Chairman GIBBONS. And I think probably most of the orange juice consumed in the United States right now is coming from Brazil. So we take our share of the hits. And we do not ask for the subsidies. And I really do not have a whole lot of sympathy for these people out here that are subsidy farmers. Frankly, I do not mind stating that.

But we are not trying to exclude farmers and farm interests from this hearing. We want to include them in it because there are serious problems there.

Let us go on to Mr. Moore.

STATEMENT OF MAX L. MOORE, PRESIDENT, OKLAHOMA STEEL & WIRE CO., INC.

Mr. MOORE. Thank you, Mr. Chairman.

I appreciate my opportunity to speak to you today. I would like the gentleman on my right to know that I am originally an Iowa farm boy. So he is with other farmers in the area.

Mr. BATES. So am I.

Mr. MOORE. Are you?

Mr. BATES. Yes.

Mr. MOORE. My name is Max Moore. I run or manage my family's company in southern Oklahoma. We manufacture barbed wire, woven wire, fence panels, and concrete reinforcement. We started the company in 1978, and today have 175 employees.

We compete on a daily basis—one of our major competitors—with Mexican companies. As your citrus products, they enter the United States with practically no tariffs or duties. And in some cases, in a lot of cases, with the GSP treatment, they enter with no duty. On top of that, they also receive a rebate of any VAT, value-added taxes, that come in on the products they export into the United States. So in essence they have a very distinct incentive to export into my country.

On the other hand, when I want to ship into Mexico, which I have recently explored, I come up against as much as 33.9 percent effective duties, duties and value-added taxes. My biggest concern in all of this, that everybody—you know, panel members here have given a lot of—you have heard constantly and over and over about the concern of what the imports are going to do to the United States. But to me the real question is what are we talking about? We are talking about free trade. That means it goes both ways.

Now, my concern is that we are going to have a free-trade agreement, and it is not going to be both ways. Why should my company be unable to export into another country when they can come into my country virtually unscathed with any financial barriers?

I am not saying put barriers up. As far as I am concerned let them come in, but let me go to Mexico also. Recently, I tried to, as I said, tried to export into Mexico. I came up against 33.9 percent duties, taxes and what have you, while simultaneously my product that is sold in the United States is sold at a 20-percent discount to what it is sold in Mexico at.

Now, people say the barriers have come down. I agree. Two and a half years ago that barrier was 48 percent. It has come down but in my generic-type product it might as well be 40,000 percent, because 40 is prohibitive, 30 is prohibitive, 20 is prohibitive. It needs to be equal.

Our company and industry—and Chairman Gibbons, you have some good friends of mine from over at Tampa at Reeves will tell you that—Oklahoma Steel & Wire is one of the most competitive, low-cost producers in the United States. I will put my people—the labor people have been here today saying we are worried about our labor, about the low cost of labor in Mexico—I will put my people and our ingenuity up against anybody in the world, as long as I start on the same playing field.

I compete—one of the Mexican companies that I compete with is owned by a family, a very wealthy family, very closely connected to the Government, and these people have the opportunity to ship into my country when I cannot ship into theirs. Back to my point though, is that I will put my people and our ingenuity up against anyone in the world, including the groups that are in Mexico.

The only way you are going to ensure a free-trade agreement between these two countries is that the tariffs, if any, are the same going back and forth. As you can tell, I really want a free-trade agreement. I am in support of a free-trade agreement for two basic reasons. One, the market in Mexico for my generic barbed wire, woven wire and fence panels is awesome. It is very large.

Number 2, the general market price is higher than I sell in the United States, basically because they have been protected for many years. Now, people are talking about phasing-in, well, who is going to pay the bill while you are phasing it in on these generic-type products. Probably myself, my company, and companies like mine and our employees.

We need to be on the same footing. That is all we ask, to be on the same footing.

Chairman GIBBONS. Let me interrupt you here, because I think you put your finger on a point that has been overlooked terribly in all of this discussion.

The biggest impediment we have in this country to a satisfactory trade policy is our tax policy. And just by historic accident the chair that I am sitting in was occupied at one time by a man who tried to change it. And the next election for reasons not really connected with that but attributed to that, he got defeated. So there is a myth that goes around this country that if you try to do something about this crazy tax policy we have got, you are going to get defeated. But somebody has got to talk about it.

The biggest impediment we have in this country is the tax policy. I will not go into any horror stories about how hard it is to enforce and how expensive it is to enforce and how avoided it is. But you have got to realize that 35 percent of all the agricultural products that we produce in the United States in order to find a market have got to be sold overseas. And 20 percent of all the manufactured products—we are talking about jobs now—in order to be sold have got to be sold overseas. We just do not have any more domestic market for them.

But what do we do? Through the tax system we subsidize imports and through the same tax system we penalize our export industries. Here is the way it works.

If you manufacture this in the United States, when it leaves the United States it takes with it the whole cost of the United States Government and that is a lot.

Mr. MOORE. That is right.

Chairman GIBBONS. And then it goes into some foreign country where they have a value-added tax and they add that value-added tax to it and it goes to retail. So when this American-made product leaves the United States and goes to a foreign country to be sold—and practically every foreign country has a value-added tax, and we have agreed to all of those—it has got two costs of government on it.

Mr. MOORE. That is exactly right.

Chairman GIBBONS. If you manufacture or grow it in one of the value-added countries, which is about every country on earth, when it leaves that country they take off their cost of government, and it comes into our country and because we do not have a value-added system we do not add any cost of government to it.

So something manufactured in the United States has a two-cost of government at retail in a foreign country and when it comes into this country, it has got no cost of government in it.

How in the world American agriculture, American jobs and American manufacturing have survived in that silly system I have never been able to understand.

Mr. MOORE. But, Mr. Chairman——

Chairman GIBBONS. You cannot get anybody to talk about it except you. You are the first witness we have had in here in years who has talked about the fact that you hit a value-added tax system and your part has got to pick up the cost of a value-added system.

Mr. MOORE. Mr. Chairman, I am impressed, I am extremely impressed that you are that knowledgeable about it, because in fact, you could probably go amongst your peers and many of them do not understand it. You try to explain that a company that I am competing with gets a rebate at home, a totally legal——

Chairman GIBBONS. Certainly.

Mr. MOORE [continuing]. Gap rebate——

Chairman GIBBONS. That is correct.

Mr. MOORE [continuing]. Of 15 percent. You give me a 15-percent rebate and I will do an awful lot for the trade deficit.

Chairman GIBBONS. When you carry the full cost of the United States Government and you pick up their value-added tax, you have probably got a 50-percent ad valorem added to your product.

Now, that is just a straight penalty. When they come into our society, and our market, they can buy a 50-percent ad valorem rebate. I mean a subsidy that we gratuitously give them. We sit here, year after year and complain about minor parts of the trade laws and everything else and the tax system we have got is insane.

Mr. **Moore**. Well, it is very hard for me to compete when at the same time they can come into my country, get a rebate, undercut my domestic market and I cannot even go to their country.

Right now, with the taxes and the ad valorems as they are, even though they are selling at 20 percent higher in their market, I cannot get to them because by the time I add those taxes and tariffs and ad valorems on top of it, I am 10 percent over their market level. But yet, they can come in here—I told an individual one time, it is like being in a fistfight. I do not know, I am sure you never got into any fistfights, but——

Chairman **Gibbons**. Well, in the last few years I have not.

Mr. **Moore**. Well, it is like being in a fistfight with both hands tied behind your back. The only thing you can do is butt at them. It is tough. If the American jobs will not be—if that is continued—the American jobs will not be lost because we were inefficient, it is because the governmental rules just eliminated them.

Chairman **Gibbons**. Well, the AFL–CIO was in here a while ago and they protest very righteously that they are losing jobs in America.

But they are married to this crazy tax system for some reason. I do not understand it. Their dues-paying members are the ones that are losing the most jobs because of the crazy tax system. I am hoping some day that they will understand it. The American businessman refuses to talk about our tax system because he is afraid Congress will add a value-added tax just as an add-on tax.

What we need to talk about is using a value-added tax as a substitute for the current tax system. I would hate to tell you all the fine people we could get rid of down at the IRS with a much simpler tax system, to say nothing of my friends in the accounting field and the lawyering field.

And maybe even some staff around here, but would be heresy to say that. Let us go ahead. I am sorry to have interrupted you but you are the first person to put your finger right on the problem.

Mr. **Moore**. Thank you. I am impressed that you are as knowledgeable as you are. My final point is that the VRA's were—and you are familiar with the VRA's and most Congressmen who were involved with trade are familiar with the VRA's—the VRA's were nothing more than a skirmish. This free-trade negotiation is for all the marbles. I mean this will make or break many American companies especially in the steel sector in light of the fact that the VRA's will be eliminated in March of 1992. Thank you.

Chairman **Gibbons**. Thank you.

I apologize for interrupting like I did and I apologize to you, Mr. Crane, for that particular—it just had to come out.

[The statement and attachment of Mr. Moore follow:]

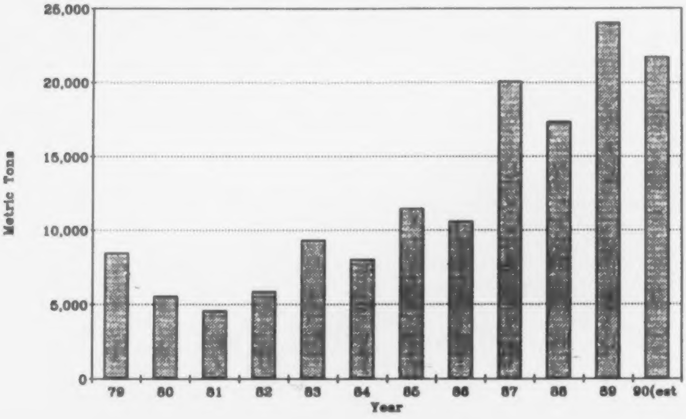
Committee on Ways and Means
Subcommittee on Trade
Hearing on United States-Mexico Economic Relations
June 28, 1990

Statement of Max L. Moore,
President, Oklahoma Steel & Wire Co., Inc.
Madill, Oklahoma

I am the President of Oklahoma Steel and Wire Company, Inc. -- a producer of wire products such as fence panels and fencing. OK Steel has been involved in this business for 12 years and directly employs 175 people. We import raw materials and finished products from Mexico and we attempt to export finished goods to Mexico. I believe this experience qualifies OK Steel as particularly well-suited to provide the Subcommittee with the practical business perspective of those affected by the broad economic policies issues under discussion between the U.S. and Mexican governments.

While these views are presented on behalf of my own company, I believe my views and experiences are representative of many industries. Let me emphasize that OK Steel has a keen interest in serving both the U.S. and Mexican markets. In our business, Mexican wire products producers represent our primary competition. As the chart below demonstrates,[1] imports of Mexican wire products have increased dramatically in the past few years.

Mexican Wire Products Imports
1979-1990



In fact, this surge in imports led the U.S. to amend the 1985 Voluntary Restraint Agreement ("VRA") with Mexico to include wire products in the coverage of that agreement. This coverage was continued in the recently negotiated steel VRA, although Mexico's quota for wire products was more than doubled.

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[1] Due to the conversion from the Tariff Schedule of the United States (TSUS) to the Harmonized System of Tariff Classification (HS), the most recent data are not entirely comparable to that of earlier years. Nonetheless, the trend clearly demonstrates a doubling of Mexican wire imports in past decade.

The rapid increase in imports of wire products from the Mexico might lead Members of the Subcommittee to conclude that OK Steel appears today to seek protection from imports. Quite the contrary. OK Steel welcomes competition from the Mexican producers and asks only that the conditions under which this competition occurs are fair so that we have the same opportunity to sell our products in Mexico as the Mexican producers have here in the U.S.

OK Steel shares the excitement expressed by many U.S. companies over the economic reforms initiated by the Government of President Carlos Salinas. We agree with the sentiment expressed by James D. Robinson III, chairman of American Express and co-chairman of the Business Roundtable, that protectionism does not work. To paraphrase Mr. Robinson, we believe that fair and open trade creates business opportunities and business opportunities create jobs.

As this Subcommittee is well aware, for a long time Mexico was not open to imports from the U.S., or for that matter, any country. Until relatively recently, Mexico followed the classic economic development model based on import substitution policies. A recent International Trade Commission study notes that in 1982 and 1983, 100% of the value of Mexican imports were controlled through import licensing. By 1988, this percentage was reduced to 19.70% and, consistent with its GATT accession obligations, Mexico is in the process of dismantling its import licensing requirements. *See* USITC, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations*, Inv. No. 332-282, Publ. No. 2275, at 4-4, 4-5 (April 1990). Today, we are happy to acknowledge, the products of OK Steel face no such barrier to entry in Mexico.

That does not mean, however, that we have effective access to the Mexican market. We face two different problems: first, effective rates of import duties and other charges keep us out of the Mexican market; and second, Mexican producers have a huge financial incentive to export to the United States that is not reciprocated due to U.S. tax law.

A Substantial Effective Rate of Protection Precludes Our Products from the Mexican Market

With the elimination of non-tariff barriers such as import licensing, tariffs and other border charges became the primary obstacles to penetrating the Mexican market. By 1986, across the board tariff reductions were undertaken. Maximum tariffs were reduced from 100% to a bound rate of 50%. Applied rates were reduced further so that today Mexico imposes duty rates of 10% or 15% on the products produced by OK Steel.

As attached table demonstrates, the differential between Mexican and U.S. duties imposed on wire products is substantial, ranging from 4.4% to 15% of the value of the product. Bear in mind that wire products are extremely price sensitive. A price difference of only a few percentage points caused by import duties often means the difference between making and losing a sale. For that reason, OK Steel welcomes the possibility of reducing tariff rates between the U.S. and Mexico to zero -- when the costs associated with trade are reduced, both trading partners benefit. If import duty rates are equalized between the U.S. and Mexico, a significant and effective barrier to entry will be eliminated.

Mere tariff reduction, however, is not enough. In reality the effective rate of protection in Mexico is much greater for the following reasons:

1. Mexico's bound rate for these products is 50% *ad valorem*; thus, at any time Mexico could increase its tariffs to that level without any legal obligation under the GATT.

2. Mexico assesses a Customs Service Fee of 0.6% (0.8% on Sundays). A 1986 GATT Working Party found this practice to be inconsistent with both Article III, the national treatment clause of the GATT, and Article VIII which requires that such fees "shall be limited in amount to the approximate cost of the services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes." Later, a GATT Panel found that the U.S. customs user fee, when it was applied at 0.22%, was excessive; presumably a fee three or four times higher would clearly run contrary to GATT rules.

3. Mexico assesses an Export Promotion Surcharge of 2.5% ad valorem on all the products of interest to OK Steel. I cannot object to the Mexicans promoting their exports but I certainly do object to having to pay for it. In addition, while I am no expert in international rules, I am concerned that this surcharge might be used to fund illegal export subsidy programs.

4. Mexico assesses a Municipal Tax (equivalent to a local import duty) of 3% of the Federal duties.

5. Mexico also collects a Value Added Tax (VAT) known as in Spanish as the IVA of 15%, on all wire products of interest to OK Steel. This tax is applied to the "normal customs value" of the good plus the Service Fee plus the Export Promotion Surcharge plus the Municipal Tax.

As a result, the effective rate of protection is not 10% or 15% but rather exceeds 30%. A simple illustration may assist the Subcommittee in understanding this point.

Value of OK Steel export to Mexico	$ 1000.00
Federal Import Duty (15%)	$ 150.00
Municipal Tax (3% of duties)	$ 4.50
Export Promotion Surcharge (2.5%)	$ 25.00
Customs Service Fee (0.6%)	$ 6.00
Subtotal	$ 1185.50
VAT (15%)	$ 177.83
Total	$ 1363.33
Total Mexican Taxes and Duties	$ 363.33
Effective Rate of Protection	36.33%

Of course, I am not arguing that each of these measures violates Mexico's international obligations -- although the Customs service fee certainly appears to, and a GATT Working Party reviewing Mexico's protocol of GATT accession noted that the tariff surcharges and additional charges on imports appeared inconsistent with the GATT. The Working Party noted that if these duties and charges remained in effect on December 31, 1990, Mexico's practices would be reviewed.

Rather, I simply maintain that the cumulative effect of these duties, fees, taxes and surcharges is so great that the conditions of trade in galvanized wire, barbed wire, wire mesh and fence panels is inherently unequal between the U.S. and the Mexican markets. In other words, there is no level playing field in these products.

Disparate U.S. and Mexican Tax Policies Provide an Incentive to Export to the U.S. and No Incentive to Export to Mexico

On the other hand, Mexican producers have an incredible incentive to export to the United States. The VAT or IVA mentioned above is rebated upon export. In effect, therefore, a Mexican producer gets a 15% bounty just for exporting his product to the U.S. Under these circumstances, why should the rational Mexican producer sell in the home market when he can export to the U.S. and have even greater pricing flexibility?

The rub of the issue, however, is not the economic effect and the incentive to export created but rather that the Mexican practice is not only condoned but encouraged by the GATT. In this instance the exporter receives money from the government conditioned upon exportation -- the classic definition of an export subsidy. According to a long standing theory concerning the effects of indirect and direct taxation (taxes imposed on goods as opposed to taxes imposed on income), the non-excessive rebate of indirect taxes upon exportation is permitted under GATT rules.

This situation would not be disturbing if U.S. companies such as OK Steel enjoyed the same rebate possibilities. In fact, the theory behind the rebate of indirect taxes is quite simply one of tax neutrality. Exporters should not be placed at a competitive disadvantage by home market taxes. The rebate of indirect taxes is a "border tax adjustment" devised to permit exporters to enter the international market on a level domestic tax playing field.

The problem, of course, is that the U.S. does not impose indirect taxes such as a VAT preferring instead to raise revenue almost exclusively through direct income based taxes. As a result, the U.S. literally has nothing to rebate to exporters such as OK Steel. Virtually every other significant U.S. trading partner uses indirect taxes and GATT-legal rebates. Mexican producers, due to the VAT rebate, have an incentive to export to the U.S. precisely because the U.S. does not impose a VAT. Since the U.S. producer's price already reflects the direct taxes imposed by the U.S. and the Mexican company has had this component of its costs removed, the Mexican company, assuming an otherwise similar cost structure, has significant pricing discretion.

Perhaps you find it incongruous that a businessman appears before you to seemingly suggest new taxes. I simply wish to point out that the current U.S. tax policy of utilizing direct taxation and avoiding indirect taxes such as a value added tax places U.S. companies interested in exporting at a competitive disadvantage. Thus, Mexico is not wrong in its VAT rebate -- the GATT condones this practice. Perhaps the GATT rules are faulty -- but there seems no interest in changing the distinction between direct and indirect tax rebates.

The answer, it seems, springs from the possibilities for the substitution of certain direct taxes with a VAT or excise tax. A debate on this issue has raged for years with many economists insisting that freely floating exchange rates eliminates any such discrepancy. I am not a theoretician -- all I know is that under the circumstances faced by my industry, Mexican wire producers are "paid" to export their product to the U.S. while my products pay the very VAT that is rebated upon export. To this Iowa plowboy, the way to level the playing field is clear -- impose an equalizing tax at the border (a recapture of the rebate through a duty) or at the point of sale (an indirect tax or VAT applied to imports).

Conclusion

As noted earlier, OK Steel does not begrudge the Mexican wire product producers a shot at our market. On the contrary, we welcome competition under fair conditions. However, our trade with Mexico in wire products lacks even a semblance of reciprocal access to their market. Before we open our market completely to Mexican wire products, we should require:

1. Equal bound duty rates in the U.S. and Mexico;

2. Equivalent Customs user fees fully consistent with GATT rules; and

3. An end to Mexico's surcharge on imports to fund export promotion.

In addition, the Congress should confront and remedy the inherent competitive disadvantage imposed on American exporters by our refusal to take full advantage of GATT rules regarding border tax adjustments. This is not a question of Mexican practices that inhibit imports, but rather a question of American tax practices that inhibit exports. It is high time we fix it.

(A) PRODUCT	(B) U.S. TOTAL CURRENT TARIFF ON MEXICAN PRODUCTS	(C) CURRENTLY APPLIED MEXICAN TARIFF**
I. 7217: Wire of iron/nonalloy steel - galvand wire	———	
7217.12.10 Plated/coated with zinc - flat	5.2%	10%
7217.12.30 Plated/coated w/zinc - round ¢ 1.5mm	5.3%	10%
7217.12.50 Plated/coated w/zinc - round _ 1.5mm	1.5%	10%
7217.12.70 Plated/coated w/zinc - other	5.6%	10%
7217.22.10 Plated/coated w/zinc - round	5.3%	10%
7217.22.50 Plated/coated w/zinc - other	5.2%	10%
7217.32.10 Plated/coated w/zinc - round	5.3%	10%
7217.32.50 Plated/coated w/zinc - other	5.2%	10%
II. 7313: Barbed Wire		
7313.00.00 Barbed wire	0	15%
III. 7314: Cloth, grill, netting, & fencing, iron/steel wire		
7314.19.00 Cloth, grill, netting & fencing other than woven	0 - 4.9%	15%
7314.20.00 Grill, netting & fencing, welded	0*	15%
7314.30.10 Welded, not plastic covered	0.2cents/kg	15%
7314.30.50 Welded, other	0*	15%
7314.41.00 Plated/coated w/zinc	0.2cents/kg	15%
7314.42.00 Plastic coated	0.2cents/kg	15%
7314.49.30 Not cut to shape	0*	15%
7314.49.60 Cut to shape	0*	15%

* = indicates that product receives GSP treatment
** = the GATT "bound rate" tariff for these products is generally set at 50%

Source: Department of Commerce and USTR

Chairman GIBBONS. Mr. Rangel.

STATEMENT OF RAUL RANGEL HINOJOSA, VICE PRESIDENT FOR INTERNATIONAL LEGAL AFFAIRS, VITRO, S.A., MONTERREY, NUEVO LEON, MEXICO, ACCOMPANIED BY IRWIN P. ALTSCHULER, COUNSEL

Mr. RANGEL. Thank you, Mr. Chairman, and thank you for providing us the opportunity to present our views on the United States-Mexico economic relationships.

Since English is not my native language I will appreciate your patience as I present this summary of these remarks.

Chairman GIBBONS. You are doing real well so do not get discouraged.

Mr. RANGEL. Vitro has had the fortunate opportunity to not only watch the United States-Mexico economic and trade relationship grow throughout the 1980's in ways that would have seemed impossible at the start of the decade. But also to be an active participant in this growing relationship.

Vitro has evolved from a small glass container manufacturer, founded in 1909, into fully integrated manufacturing group, employing 35,000 people in Mexico and another 9,000 here in the United States.

In the middle of the century, Vitro began the difficult task of trying to compete in world markets, including in the United States. In the 1980's Vitro began to establish U.S. subsidiaries to handle the direct importation and distribution of its exports. These companies have generated substantial employment in the United States. Crisa Corp., for instance, is the second largest employer in Laredo, Texas.

Vitro's presence in the United States grew last summer when, in order to become a U.S. producer it acquired Anchor Glass from Tampa, Florida, and Latchford Glass from California. In becoming an internationally oriented company, Vitro has tried to meet the challenge issued by President Salinas for Mexican companies to become more modern and prepare for the new economic era—to be prepared and to compete successfully in the new environment of an open and free-trade-oriented economy.

Mr. Chairman, our two countries have reached a unique moment of opportunity to build on the new economic relationship which has already developed in such a short time. We believe that the time has come for Mexico and the United States to forge a cooperative effort in trade for the benefit of both countries.

Vitro and its subsidiary companies have already realized benefits from working cooperatively with U.S. partners. Joint ventures in Mexico with the Ford Motor Co., Samsonite, the Whirlpool Corp., P-Q Corp., Ingersoll Rand, Owens-Illinois, and Owens-Corning Fiberglas among others have helped Vitro companies and their U.S. partners as they have worked for competitiveness in the Mexican market, the United States market, and markets beyond North America.

Mr. Chairman, we think the time has come to forge a comprehensive binational cooperative effort because events in the world compel it and because fortunately our countries are ready for it.

Regional economy integration and interdependence is a growing reality as the 20th century comes to a close. While Mexico and the United States must remain committed to the GATT and the multilateral approach it stands for, we cannot ignore the need for bilateral cooperation at a time when bilateral and regional trading alliances are becoming more common.

Vitro believes the United States and Mexico are in a unique position to expand their bilateral trade relationship at the very time that it has become necessary to do so. I know that you closely follow events in Mexico, Mr. Chairman, and so you are already aware of the many steps which Mexico has taken to open our country to foreign investment and imports.

These steps, taken over the past few years, have already resulted in large increases in U.S. investments in Mexico and a dramatic increase in U.S. exports to Mexico. These developments have made the U.S. private and public sectors more aware of the benefits which can be gained from the United States through expansion of the bilateral economic relationship.

Achieving the desired and appropriate degree of integration will be a challenge. The very difficult levels of economic development of our countries cannot be ignored. Nor can the potential dislocation of workers and industries in both countries be overlooked. But to generate the 1 million new jobs Mexico needs every year, the Mexican economy must grow.

In order to grow we will need increased capital and trade. The recent changes in Mexican foreign investment rules have already begun to encourage increased investment and capital formation and the recent unilateral reduction in import duties has opened the Mexican market to import goods.

A free-trade agreement will provide even greater incentive for new foreign investments in Mexico, as well as opportunities for increased trade with Mexico. For the United States, a free-trade agreement will mean greater opportunities for production sharing, greater access to raw material inputs and finished products, and greater access to a growing Mexican market for both durable and consumer goods.

A free-trade agreement will naturally increase the ability of each country to compete in the other's home market. While this will be a result of an agreement, the more important goal of an agreement should be to assist each other in competing successfully at home and abroad with other competitors from around the world.

With the further economic integration of Europe just around the corner, this must be our goal—the freer movement of goods and services between our countries will help the United States to remain competitive and Mexico to become competitive—not only in the world markets, but also in our own home markets against world class competitors.

Other witnesses have detailed the risks perceived from the United States side. As you can imagine, similar concerns have been raised in Mexico as well. In some industries, U.S. workers are better trained, more productive; and in some sectors U.S. businesses and industries are larger and more experienced and better able to take advantage of economies of scale.

Many industries in Mexico are not internationally competitive. And while this may provide significant market opportunities for U.S. business, it may be the cost of significant economic dislocation in Mexico.

We believe it is imperative that both Governments consult closely with their own private sectors—industry and labor—in formulating the scope of a free-trade agreement and the speed with which it is implemented.

We strongly believe that the negotiations must take into account the dramatic steps which Mexico has already taken to liberalize its foreign trading system since its accession to GATT in 1986. Mexico has already done much to reduce tariffs and remove other barriers to imports. The primary beneficiary of these steps has been the United States, because it is the most important trading partner of Mexico.

We respectfully submit that these developments need to be taken into account by the United States, not only when negotiations for a mutually beneficial free-trade agreement begin, but now, so that the progressive steps taken by Mexico which have created a momentum for a free-trade agreement can be sustained in the interim.

Aside from all the other reason which have been offered in support of a free-trade agreement, we know that the best vehicle that we have for assuring the permanence of a reciprocal benefit resulting from Mexico's liberalization of its trade regime is a free-trade agreement.

We agree with the early testimony of Professor Dornbusch of MIT, that without a free-trade agreement, Mexico can clearly not afford to further liberalize its trade regime and on the contrary, Mexico's trade deficit is such that new protection may be necessary.

For those who are concerned about the permanence of Mexico's changes—changes which have been welcomed by the United States and which are positioning Mexico as one of the most of the open economies in the world, as well as for those who have expressed concern that the changes have been implemented only by administrative decision which could be reversed by a change in political winds—precisely a negotiated free-trade agreement is the answer.

According to the Constitution of the United States of Mexico, an international treaty executed the President of Mexico, ratified by the Mexican Senate and not contrary to the Mexican Constitution becomes the supreme law of Mexico, having the same force and effect as all Mexican Federal laws.

Therefore, a free-trade agreement would adequately address the concerns of those who fear that the recent changes implemented by the Government of Mexico could be reversed by other administrative actions.

We hope that the consultative stage of this process will result in a determined effort by both countries to go forward with free-trade negotiations, with the goal of increasing the competitiveness of both nations. In my country it is often said that when the United States sneezes, Mexico catches a cold.

The expansion of the bilateral trade and economic relationship will hopefully serve as a vaccine to help protect both nations from the ills that will affect countries unable to compete in our increasingly competitive world.

Thank you, Mr. Chairman.

[The statement of Mr. Rangel follows:]

STATEMENT OF VITRO, SOCIEDAD ANONIMA
MONTERREY, NUEVO LEON, MEXICO
PRESENTED BY LIC. RAUL RANGEL HINOJOSA

Good morning. My name is Raul Rangel and I am the Vice President for International Legal Affairs of Vitro, Sociedad Anonima of Monterrey, Mexico. I would like to express my thanks to the Chairman, and to the other Trade Subcommittee Members, for providing us the opportunity to present our views on the United States-Mexico economic relationship.

Vitro, Sociedad Anonima has had the fortunate opportunity to not only watch the U.S.-Mexico economic and trade relationship grow throughout the 1980's in ways which would have seemed impossible at the start of the decade, but also to be an active participant in this growing relationship. Vitro, Sociedad Anonima has evolved from a small, glass container manufacturer, founded in 1909, into a fully integrated manufacturing group, producing raw materials, glass and plastic containers, machinery for the production of glass and plastic containers, other related machinery and durable goods, tableware and other glassware, flat glass and fiber glass, as well as home appliances and luggage.

In the middle of the century, Vitro, Sociedad Anonima began the difficult task of trying to compete in world markets -- including the United States. In the 1980's, Vitro, Sociedad Anonima began to establish U.S. subsidiaries to handle the direct importation and distribution of its exports. These companies have generated substantial employment in the United States. Crisa Corporation, for instance, is the second largest employer in Laredo, Texas.

Vitro, Sociedad Anonima's presence in the United States grew last summer when, in order to become a U.S. producer, it acquired Anchor Glass Container Company of Tampa, Florida, and Latchford Glass Corporation of California. The acquisitions of Anchor and Latchford are viewed by Vitro, Sociedad Anonima as evidence of the emerging reciprocal nature of the United States-Mexico economic relationship -- involving not only trade in goods, but also of capital -- between our two countries.

In becoming an internationally oriented company, Vitro, Sociedad Anonima has tried to meet the challenge issued by President Salinas for Mexican companies to become more modern and prepare for the new economic era expected for Mexico, to compete successfully in the new environment of an open and free trade oriented economy.

Mr. Chairman, our two countries have reached a unique moment of opportunity to build on the new economic relationship which has already developed in such a short time. We believe that the time has come for Mexico and the United States to forge a cooperative effort in trade for the benefit of both nations.

Vitro, Sociedad Anonima and its subsidiary companies have already realized benefits from working cooperatively with U.S. partners. Joint ventures in Mexico with the Ford Motor Company, Samsonite, the Whirlpool Corporation, P-Q Corporation, Ingersoll Rand, Owens-Illinois, and Owens-Corning Fiberglass, among others, have helped Vitro, Sociedad Anonima companies and their U.S. partners as they have worked for competitiveness in the Mexican market, the U.S. market, and markets beyond North America.

Mr. Chairman, we think the time has come to forge a comprehensive, bi-national cooperative effort because events in the world compel it and because, fortunately, our countries are ready for it. Regional economic integration and interdependence is a growing reality as the 20th century comes to a close. While Mexico and the United States must remain committed to the GATT and the multilateral approach it stands for, we cannot ignore the need for bilateral cooperation at a time when bilateral and regional trading alliances are becoming more prevalent.

Vitro, Sociedad Anonima believes that the United States and Mexico are in a unique position to expand their bilateral trade relationship at the very time that it has become necessary to do so. I know that you closely follow events in Mexico, Mr. Chairman, and so you are already aware of the many steps which Mexico has taken to open our country to foreign investment and imports. These steps, taken over the past few years, have already resulted in large increases in U.S. investments in Mexico and a dramatic increase in U.S. exports to Mexico. These developments have made the U.S. private and public sectors more aware of the benefits which can be gained for the United States through expansion of the bilateral economic relationship.

Achieving the desired and appropriate degree of integration will be a challenge. The very different levels of economic development of our countries cannot be ignored. Nor can the potential dislocations of workers and industries in both countries be overlooked. But to generate the one million new jobs Mexico needs every year, the Mexican economy must grow. In order to grow, we will need increased capital and trade. The recent changes in Mexico's foreign investment rules have already begun to encourage increased investment and capital formation, and the recent unilateral reduction in import duties has opened the Mexican market to imported goods. A Free Trade Agreement would provide even greater incentives for new foreign investment in Mexico, as well as opportunities for increased trade with Mexico. For the United States, a Free Trade Agreement would mean greater opportunities for production sharing, greater access to raw material inputs and finished products, and greater access to a growing Mexican market for both durable and consumer goods.

A Free Trade Agreement will naturally increase the ability of each country to compete in the other's home market. While this will be a result of an Agreement, the more important goal of the Agreement should be to assist each other in competing successfully -- at home and abroad -- with other competitors from around the world. With the further economic integration of Europe just around the corner, this must be our goal. The freer movement of goods and services between our countries will help the United States to remain competitive, and Mexico to become competitive, not only in world markets, but also in our own home markets against other world class competitors.

In seeking to create this partnership, our countries will need to be sensitive to the short-term risks to the industries and labor forces in both nations. Obviously, the aggregate impact of a Free Trade Agreement will be stronger and larger economies in both countries. Nevertheless, each country will need to take into account the concerns of its industries and workers, as well as the differing needs and sensitivities of each country's economy.

Other witnesses have detailed the risks perceived from the U.S. side. As you can imagine, similar concerns have been raised in Mexico, as well. In some industries, U.S. workers are better trained and more productive. In some sectors, U.S. businesses and industries are larger, more experienced, and better able to take advantage of economies of scale. Many industries in Mexico are not internationally competitive, and while this may provide significant market opportunities for U.S. business, it may be the cause of significant economic dislocation in Mexico. We believe it is imperative that both governments consult closely with their own private sectors -- industry and labor -- in formulating the scope of a Free Trade Agreement, and the speed with which it is implemented.

Vitro, Sociedad Anonima has experienced firsthand the impact of conducting business during a time of significant economic change, having survived the turbulent contraction and restructuring of the Mexican economy during the 1980s. At the start of the 1980s, Mexico had an economy relatively closed to foreign trade and investment, and was only a marginal player in the world trading community. In a span of 10 very short years, this situation changed dramatically, as the Mexican economy was opended to foreign trade and investment, and Mexico's accession to GATT membership signified its commitment to become a member of the world trading community. The impact of these changes on Vitro, Sociedad Anonima a major industrial group by Mexican standards, was profound; the impact on smaller companies could only have been magnified.

We strongly believe that the negotiations must take into account the dramatic steps which Mexico has already taken to liberalize its foreign trading system since its accession to GATT in 1986. Mexico has already done much to reduce tariffs and remove other barriers to imports. The primary beneficiary of these steps has been the United States because it is the most important trading partner of Mexico. We respectfully submit that these developments need to be taken into account by the United States not only when negotiations for a mutually beneficial Free Trade Agreement begin, but now, so that the progressive steps taken by Mexico, which have created the momentum for a Free Trade Agreement, can be sustained in the interim.

Aside from all of the other reasons which have been offered in support of a Free Trade Agreement, we note that the best vehicle we have for ensuring the permanence of reciprocal benefits resulting from Mexico's liberalization of its trade regime is a Free Trade Agreement. We agree with the earlier testimony of Professor Dornbusch of MIT, that without a Free Trade Agreement, Mexico can clearly not afford to further liberalize its trade regime, and, on the contrary, Mexico's trade deficit is such that renewed protection, or devaluation of the peso, might be necessary.

For those who are concerned about the permanence of Mexico's changes -- changes which have been welcomed by the United States, and which are positioning Mexico as one of the most open economies in the world -- as well as for those who have expressed concern that the changes have been implemented only by administrative decision which could be reversed by a change in political winds -- precisely, a negotiated Free Trade Agreement is the answer. According to the Constitution of the United States of Mexico, an international treaty, executed by the President of Mexico, ratified by the Mexican Senate, and not contrary to the Mexican Constitution, becomes a supreme law of Mexico, having the same force and effect as all Mexican federal laws. Therefore, a Free Trade Agreement would adequately address the concerns of those who fear that the recent changes implemented by the Government of Mexico could be reversed by other administrative actions.

Indeed, with or without a formal agreement, the economies of our two countries are becoming increasingly intertwined, and mutually dependent. Vitro, Sociedad Anonima believes it would be better for all involved that such a process be "managed" towards the achievement of agreed upon goals under the terms of a Free Trade Agreement. This clearly would be preferable to the mere ad hoc development of an increasingly intertwined economic and trade relationship, with neither side having a clear-cut idea as to where this relationship is ultimately headed.

We hope that the consultation stage of this process will result in a determined effort by both countries to go forward with free trade negotiations, with the goal of increasing the competitiveness of both nations. In my country, it is often said that when the United States sneezes, Mexico catches a cold. The expansion of the bilateral trade and economic relationship will hopefully serve as a vaccine to help protect both nations from the ills that will affect countries unable to compete in our increasingly competitive world.

I would once again like to thank the Trade Subcommittee for providing me with the opportunity to present the views of Vitro, Sociedad Anonima on the United States-Mexico economic relationship. I would be pleased to answer any questions which members of the Subcommittee might have.

Chairman GIBBONS. Thank you, Mr. Rangel and I know where your country has been officially greeted into Tampa as Tampa's representative up here in Washington. I will continue that official greeting up here. We are glad you are there and we are proud to have you and we look forward to working with you.

Mr. RANGEL. Thank you, very much.

Chairman GIBBONS. Now, Mr. Glick.

STATEMENT OF LESLIE ALAN GLICK, COUNSEL, ON BEHALF OF ASOCIACION NACIONAL DE PRODUCTORES Y EXPORTADORES DE ORNAMENTALES DE MEXICO, A.C. (ANAPROMEX) [ASSOCIATION OF MEXICAN FRESH FLOWER PRODUCERS AND EXPORTERS]; CONFEDERACION NACIONAL DE PRODUCTORES DE HORTALIZAS (CNPH) [ASSOCIATION OF MEXICAN FRESH FRUIT AND VEGETABLE EXPORTERS]; CAMARA NACIONAL DE LA INDUSTRIA DE CONSERVAS ALIMENTICIAS (CANAINCA) [ASSOCIATION OF MEXICAN CANNED FOOD PRODUCERS]; CONFEDERACION NACIONAL DE EXPORTADORES DEL NOROESTE (CONACEX) [ASSOCIATION OF EXPORTERS IN NORTHERN MEXICO]; AND ASOCIACION NACIONAL DE FABRICANTES DE ESCOBAS, A.C. [ASSOCIATION OF PRODUCERS OF BROOMS IN MEXICO]

Mr. GLICK. Thank you, Mr. Chairman and members of the committee. My name is Leslie Glick and I am an attorney here in Washington and I represent a number of individual companies and trade associations in Mexico. The complete names in spanish are in my written statement. I am not going to include them here, but they include the Association of Mexican Fresh Fruit and Vegetables known as the CNPH; the Association of Mexican Canned Food Exporters and Producers known as CANAINCA; the Association of Mexican Fresh Flower Producers and Exporters known as ANAPROMEX; the Trade Association of Exporters in North Mexico known as CONACEX NORESTE, and the Association of Producers of Brooms in Mexico.

In the time I have I cannot address all the issues of concern to the various groups, but I would like to make a few general comments concerning the United States-Mexico economic relations, the prospects and advisability of a free-trade agreement with Mexico and then some specific areas that I think should be addressed by Congress in it deliberations concerning trade with Mexico, including a number of specific areas of concern to some of the groups that I have mentioned.

By way of introduction, in the 11 years that I have been involved in trade and business in Mexico, I have seen a dramatic change in the environment in Mexico in relationship to trade and investment with the United States.

Although a significant amount of my work involves representing Mexican exporters, I am also involved with U.S. companies that have established maquiladora plants in Mexico and the border. They also have a very strong interest in improved United States-Mexico economic relations.

Many of these changes in Mexico were reported in the International Trade Commission study entitled "Review of Trade and Investment Liberalizations by Mexico and Prospects for the Future, Phase I," and I know that the Chairwoman of the Commission testified concerning that on June 14.

However, these findings are so important I do not think they can be overemphasized and I do think they warrant a little bit of discussion today. For example, Mexico, a country with serious economic problems, foreign debt, inflation, unemployment, internal economic development, in the course of a few short years has reduced its maximum tariffs from 100 percent in 1986 to the current maximum of 20 percent. This is a greater tariff reduction than was required under their commitments under the GATT and has given Mexico an average tariff of only 11 percent which the ITC Chairwoman, herself, said was "low by developing country standards."

At the same time, Mexico has removed most of its import license requirements, made dramatic reforms in its foreign investment laws which now permits 100 percent U.S. ownership in a broad range of sectors in the economy, including many that were previously restricted such as telecommunications.

Also, during the last 5 years, Mexico has entered into many important agreements with the United States. One relating to subsidies has eliminated or phased out many subsidy programs. Mexico has joined the GATT, resulting in many internal changes to conform to GATT protocols. In 1987 Mexico entered into a bilateral framework agreement with the United States providing for consultative mechanisms and negotiations in a number of important areas with the goal of liberalized trade between the countries and eliminating nontariff barriers.

Most recently, in October of 1989, the United States and Mexico entered into another understanding relating to trade and investment facilitation that has been characterized by the International Trade Commission as a "significant milestone for bilateral commercial relations."

I mention all of this, Mr. Chairman, to briefly show the tremendous efforts and gains that Mexico has made in becoming a country that has fully recognized and accepted its responsibilities in the world trading community to both open its market to trade and investment, and at the same time, to benefit from exports to other countries.

Mr. Chairman, I wish to address today concerns of many Mexican companies and trade associations that the United States has not fully recognized these advances by Mexico. In fact, Mexico has been moving faster, in many ways at least relatively, in removing some of its barriers to U.S. imports than the United States has moved in eliminating barriers to some Mexican exports.

For example, I mention the weighted average of Mexican tariffs is now 11 percent. However, the United States imposes a duty on many Mexican products as high as 32 percent. It is difficult in this context of improved trade relations between the two countries to justify a developed country, such as the United States having duties on products that are higher than those in a country at the level of development of Mexico.

Some of these U.S. duties that have been barriers to trade with Mexico are inconsistent with Mexican efforts to reduce their import duties, and I will mention a few.

One is the duty on corn brooms which is 32 percent produced by members of the Association of Broom Producers. Another is the duty on broccoli, cauliflower, and asparagus which ranges as high as 25 percent during certain times of the year and produced by members of the CNPH. The third is the duty on canned jalapeno peppers that go as high as 17.5 percent and are produced by members of CANAINCA, just to name a few examples.

I have been involved in efforts by these companies to try to have these duties reduced or removed through the granting of GSP or legislative action or administrative reclassification.

These high tariffs are very difficult to explain to Mexican companies in view of the actions that their countries have taken, many of which have been difficult for them. For example, in the case of canned jalapeno and chile peppers, the U.S. packers that can these peppers and which compete with the Mexicans can actually import the raw peppers duty-free from Mexico. However, the Mexican companies that pack these same chili peppers in salt water or vinegar must pay duties up to 17.5 percent.

This simply hampers the ability of Mexico to develop from a country exporting fresh agricultural products into semiprocessed agricultural products and in my opinion is unjustifiable.

Again, in the case of corn brooms, the U.S. corn broom makers have a 32 percent duty imposed on this product. Currently there is a provision in H.R. 1594 before this committee in conference that would raise the duty on mixed brooms consisting of over 50 percent grass from 0 to 32 percent and overturn their classification ruling by U.S. Customs.

This is a highly protectionistic and controversial measure upon which no formal hearings were ever held in either House of Congress. Passage of such a measure only weeks after the Mexican President visited this country and opened the door to discussions of trade liberalization would be, in my opinion, nothing more than an affront to Mexico.

I do not have sufficient time to discuss this brooms measure in more detail but I have attached to my written statement for inclusion in the record, a letter sent by one of the broom manufacturers in the State of Nuevo Leon to the chairman of the full committee, Mr. Rostenkowski.

These types of protectionist trade barriers are an anachronism in the U.S. tariff system and are destined to keep Mexico at a lower state of development rather than a country that is industrializing which would be in the mutual interest of the United States and Mexico.

In the case of broccoli, cauliflower, and asparagus, the U.S. International Trade Commission undertook a section 332 investigation of these products several years ago. I represented the CNPH and its predecessor at that time, and this study generally found that the U.S. market for these products was growing and that the United States exported many of these products and that it did not recommend any type of duty increase or find the existence of any type of unfair trade practice by Mexico. In fact, the study specifically refuted a claim made by U.S. agricultural producers that the Mexicans were using illegal pesticides on products exported to the United States. Nevertheless, our efforts to have the tariffs on these products removed through the generalized system of preferences have been unsuccessful due to protectionist efforts by certain U.S. industries and sympathy for them by certain agencies of the U.S. Government.

Certainly this an area that should be addressed in any free-trade agreement.

Concerning fresh-cut flowers, an industry where Mexico has an opportunity to expand its exports in a new area, the small Mexican flower industry generally consists of very small firms due to the land reform system in Mexico that does not permit large corporate ownership.

They have been faced with a series of trade actions in the United States by U.S. growers. I am sure you realize that perhaps 8 or 10 years ago the cost of a dozen roses was very high and they could only be purchased in a retail florist store. Now, you can find fresh flowers in your supermarket and they are affordable to the average consumer. This is a result of healthy competition from imported sources. However, the U.S. domestic producers first brought a countervailing duty case against the Mexican flower industry in 1986, and later an antidumping case which is still going on in the review stages.

The countervailing duty investigation found no illegal subsidies have been paid by the Mexican Government to flower exporters. Nevertheless, the cost of defending these investigations is very great for these small industries.

In the case of the antidumping laws, the questionnaires of the Commerce Department that are filled out in a computer format are sometimes a barrier to the small farmers in Mexico that do not even keep their records in the form that the Commerce Department requires.

Many Mexican flower exporters are paying a very high "all other rate" of almost 30 percent, not because they are dumping but because they cannot afford the cost of filling out the questionnaire and going through an individual review to have a dumping rate assigned to them as required by Commerce Department regulations.

Mr. Chairman, these are just a few examples of the types of trade barriers that are viewed by Mexican exporters with some confusion. The United States is, after all, one of the most developed and economically healthy countries in the world. The United States has an interest in the development of Mexico, not just from an economic viewpoint, but also from a political and military viewpoint. Although Mexico has had a very stable, democratic government and has been an ally of the United States for many years, unlike other countries in the southern hemisphere, Mexico has not been fully rewarded for its very positive efforts as a friend and ally of the United States.

We are spending millions of dollars in aid to countries such as Panama and El Salvador but we have really nickeled and dimed Mexico in various ways by taking trade benefits away from them or imposing high tariffs.

These policies just do not make sense economically, militarily. For example, in the GSP, up until this year products from Mexico had been frequently graduated and removed and products from

Mexico had not been redesignated because they were considered an advanced developing country.

This year, for the first time in a very positive recognition of the advances made by Mexico, the USTR, for the first time has redesignated many products for Mexico. I think this is a very positive first step, but it is only the beginning, I believe of the recognition that must be given to the achievements made in Mexico.

In regard to a free-trade agreement, I believe that such an agreement must include a very serious reevaluation of the high duties in the United States that affect certain products for Mexico. The goal should be elimination of tariff barriers, perhaps phased-in over a number of years. At the same time, I think it should be recognized that dispute settlement, particularly in relationship to nontariff barriers and unfair trade practices should be handled on a bilateral basis, perhaps similar to the system that we have with Canada.

Mexico now has antidumping and countervailing duty laws similar to ours, and experience in enforcing them. And there is no reason that review of decisions in both countries on these issues could not be handled by a binational commission in a manner similar to the United States-Canada agreement.

In my opinion, the administration of the U.S. countervailing duty and dumping laws has been, in itself, a nontariff barrier by imposing numerous restrictions and deadlines on Mexican exporters that are very difficult for many of them to meet at their level of development.

For example, while these administrative procedures and regulations might not be difficult for a large Japanese steel company to comply with, they are very difficult for small Mexican agricultural producers. And there is really very little flexibility in some of these Commerce Department regulations. For example, the so-called best information available rules are used frequently in an unnecessarily punitive manner to impose very high duties on Mexican companies that through fault of their own are not able to supply all the detailed information required by the Commerce Department.

Any agreement between the United States and Mexico on trade should address these problems to reduce these administrative barriers and should have both countries involved in shaping the rules and regulations that cover such areas as antidumping and countervailing duties and other types of unfair trade practice mechanisms.

I believe that the free-trade agreement should also recognize and address Customs formalities and perhaps have changes in regulations and perceptions by the U.S. Customs Service that have often imposed hardships on Mexican exporters and U.S. importers operating maquiladora plants in Mexico.

The maquiladora program which operates under old section 807 of the tariff laws was the subject of an ITC investigation several years ago. The ITC found that contrary to the position of organized labor, these maquiladoras have not really resulted in a loss of U.S. jobs, but U.S. jobs were created in other sectors including the manufacture of the inputs that went into these maquiladoras and the ITC concluded that it was essentially a wash in terms of the effect on labor.

But in spite of this long history of congressional support for the concept of production sharing through these tariff incentives, the

U.S. Customs Service has generally taken a very restrictive view of these laws that has made it more difficult for U.S. companies to utilize these programs.

I have been involved in numerous rulings from Customs in these areas where Customs has taken very restrictive interpretations of their own prior rulings or court decisions that have made it more difficult for U.S. companies to utilized these programs.

I think the United States must recognize that production sharing with Mexico is inevitable and we should take advantage of the fact that we do have a neighbor that provides these opportunities for certain lower cost production to enable the U.S. companies to remain more competitive with their adversaries and competitors in other parts of the world.

I testified before the ITC during their investigation and I mentioned an example of one of my own clients in Rhode Island that was seriously in danger of going out of business due to low priced competition from the Far East. They essentially had two choices, either they would go out of business or they would become an importer. Instead they engaged in production sharing in Mexico that enabled them to become more competitive and the company has since prospered and more jobs were created in the United States creating raw materials that were sent down to their Mexico plant.

I read with interest an article in the June 17 Chicago Tribune where they talked about jobs being created in Illinois related to the Mexican trade and indicated this was a major source, the sixth largest export market for Illinois.

I mention this because of the chairman of the full committee being from Illinois and I believe that these benefits are throughout the country.

In conclusion, as we know, Mexico is our third largest trading partner and we account for two-thirds of its total trade. The time has come, Mr. Chairman, in my belief to have a real trade policy with Mexico, not an ad hoc policy that differs from month-to-month and year-to-year.

In 1992, the United States will become more isolated due to the complete integration of the European Community and we very much need our relationship with Mexico and Canada to provide comparable trading regimes to what will exist in Europe. It is time to forget the traditional stereotypes towards Mexico and treat Mexico as an equal partner in the future development of our two economies that in my opinion will result in increased prosperity for both countries in the future.

Thank you.

[The statement and attachment of Mr. Glick follow:]

TESTIMONY OF
LESLIE ALAN GLICK, ESQ.

ON BEHALF OF
ASOCIACION NACIONAL DE PRODUCTORES Y EXPORTADORES
DE ORNAMENTALES DE MEXICO, A.C. (ANAPROMEX),
CONFEDERACION NACIONAL DE PRODUCTORES DE HORTALIZAS (CNPH),
CAMARA NACIONAL DE LA INDUSTRIA
DE CONSERVAS ALIMENTICIAS (CANAINCA),
CONFEDERACION NACIONAL DE EXPORTADORES DEL NOROESTE (CONACEX)
and ASOCIACION NACIONAL DE FABRICANTES DE ESCOBAS, A.C.

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE No. 30

"UNITED STATES-MEXICO ECONOMIC RELATIONS"
June 28, 1990

Mr. Chairman and Members of the Committee, my name is Leslie Alan Glick and I am an attorney in Washington, D.C., a partner in the law firm Porter, Wright, Morris & Arthur and I am testifying today on this important topic of United States-Mexico economic relations. I have specialized in international trade and customs law since 1971 and have represented clients from Mexico since 1979. I represent numerous individual companies and trade associations in Mexico, most of which are exporting products to the United States. Some of these associations are listed at the beginning of this testimony and include such groups as the Association of Mexican Fresh Fruit and Vegetable Exporters, known as CNPH, the Association of Mexican Canned Food Producers, known as CANAINCA, the Association of Mexican Fresh Flower Producers and Exporters, known as ANAPROMEX, a trade association of exporters in Northern Mexico, known as CONACEX NORESTE, and the Association of Producers of Brooms in Mexico.

In the five minutes that I have, I will not be able to address all the issues that may concern my various clients, but I wish to make some general comments concerning U.S.-Mexico economic relations, the prospects and advisability of a free trade agreement with Mexico, and some specific areas that I feel should be addressed by the Congress in its deliberations concerning trade with Mexico. There are also a number of specific areas of concern that affect some of my clients I set out above that I would also like to discuss briefly.

By way of introduction, in the eleven years that I have been involved with trade and business in Mexico, I have seen dramatic changes in the atmosphere in Mexico in relationship to trade and investment with the United States, Although a significant amount of my work involves representing Mexican exporters, I also represent U.S. companies that have established plants in Mexico, known as Maquiladoras and they also have a very strong interest in U.S.-Mexico economic relations. Many of these changes have been reported in the recent International Trade Commission report entitled "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexico Relations - Phase One" that was issued on April, 1990 and was also summarized in the testimony of the Chairman of the ITC at your hearings on June 14th. However, I think the significance of these findings cannot be overemphasized.

Mexico, a developing country with serious economic problems concerning its foreign debt, inflation, unemployment, and internal economic development has, in the course of a few short years, changed from an economy that had a maximum import tariff level of 100% in 1986 to a current maximum level of 20% This is a significantly greater tariff reduction than required by Mexico's committment under the GATT and has resulted in Mexico having a weighted average tariff of now only 11%, which has been acknowledged by the ITC to be "low by developing country standards". (See Testimony of Anne Brunsdale before the Subcommittee on Trade of the House Ways and Means Committee, June 14, 1990, at 4). At the same time, Mexico has removed most of its import license requirements, made dramatic reforms in its foreign investment laws, which allowed 100% U.S. ownership in a broad range of sectors in the economy, including many that were previously restricted as to foreign investment. This has been particularly dramatic in such areas as telecommunications, where foreign investment was previosly prohibited and now at least minority participation by U.S. companies is allowed.

During the last five years, Mexico has entered into agreements with the U.S. relating to subsidies that have resulted in Mexico eliminating or phasing out a number of subsidy programs. Mexico became a member of the GATT in 1986, which resulted in many internal changes to conform to GATT protocols, and in 1987, Mexico entered into a bi-lateral framework agreement with the U.S. providing for consultative mechanisms and negotiations in a number of important areas with the goal of liberalized trade between the countries and eliminating non-tariff barriers. Most recently, in October of 1989, the U.S. and Mexico entered into another "Understanding Relating to Trade and Investment Facilitation" that has been characterized by the International Trade Commission as "a significant milestone for bi-lateral commercial relations ..." See "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexico Relations," U.S.I.T.C. Investigation No. 332-282, Phase One; U.S. I.T.C. Publication 2275, April 1990 at 2-6. I mention all of this briefly to show the tremendous efforts and gains that Mexico has made in moving from a developing country status to one of a country that has fully recognized and accepted its responsabilities in the world trading community, to both open its market to trade and investment and at the same time, benefit from exports to other countries.

Mr. Chairman, the issue that I wish to address today is the concern of many Mexican companies and trade associations that I represent, that the U.S. has not fully recognized the advances made by Mexico, and in fact, that Mexico has been moving faster in many ways, at least relatively, in removing some of its barriers to U.S. imports than the U.S. has moved in eliminating barriers to Mexican exports. For example, as I mentioned, the weighted average of Mexican tariffs is now 11%. However, the United States imposes a duty on many Mexican products as high as 32%. It is difficult in the context of improved trade relations by the two countries, to justify developed countries, such as the United States, having duties on products that are higher than those in a country at the level of development of Mexico.

Some of these U.S. duties that have been barriers to Mexico, and which are inconsistent with Mexican efforts to reduce their import duties, are duties on corn brooms, which are 32%, produced by members of the Association of Broom Producers; broccoli, cauliflower and asparagus, that range as high as 25% during certain times of the year and which are produced by members of the

CPNH; canned jalapeno peppers that pay duties as high as 17.5% and are produced by members of CANAINCA, to name just a few examples. I have been involved in efforts of these companies to have these duties reduced or removed either through the granting of GSP benefits, legislative action or administrative reclassification by the Customs Service. This is difficult to explain to Mexican companies, in view of the actions that their country has taken, many of which are painful and difficult for companies in Mexico to adjust to, while the U.S. continues to have very high tariff barriers on these products. For example, in the case of canned jalapeno and chili peppers, the U.S. packers that can these peppers and which compete with the Mexicans, can import the raw peppers duty free from Mexico. However the Mexican companies that pack these in salt water or vinegar must pay a 17.5% duty on the same chili peppers when exported to the U.S. as a canned product. This simply hampers the ability of Mexico to develop from exporting fresh agricultural products into semi-processed agricultural products and it is totally unjustifiable.

In the case of the corn brooms, again the U.S. corn broom makers import most of the broom corn from Mexico duty-free, but again successfuly had the 32% tariff imposed on the finished brooms from Mexico. Currently, there is a provision in H.R. 1594 before this Committee that would raise the duty on mixed brooms consisting of over 50% grass, from 0 to 32%. This is a highly protectionistic and controversial measure, upon which no formal hearings were ever held in either House. Passage of such a measure only weeks after Mexico's President visited this country and opened the door to discussions of trade liberalization would be nothing more than an affront to Mexico. I do not have sufficient time to discuss this brooms measure in more detail, but I have attached to the statement, for inclusion in the record, a letter sent by one of the Mexican broom exporters to Chairman Rostenkowski. These types of protectionist tariff barriers are an anachronism in the U.S. tariff system and are destined to keep Mexico at a lower state of development, rather than a country that is industrializing, which would be in the mutual interest of both the United States and Mexico.

In the case of broccoli, cauliflower and asparagus, the United States International Trade Commission undertook a Section 332 investigation on these products several years ago. I represented the CNPH and its predecesor at that time. This study generally found that the U.S. market for these products was growing and that the U.S. exported many of these products and did not recommend any type of duty increase or find the existence of any type of unfair trade practices by Mexico. In fact, the study specifically refuted a claim made by U.S. agricultural producers that Mexicans were using forms of illegal pesticides on products exported to the U.S. Nevertheless, our efforts to have the tariffs on these products removed through the Generalized System of Preferences have been unsuccesful due to protectionist efforts by certain U.S. industries and sympathy for them by certain agencies in the U.S. Government.

Concerning fresh cut flowers, an industry where Mexico has an opportunity to expand its exports into an area in which it has not been active in the past, the small Mexican flower industry, generally consisting of small farms limited by the Mexican land reform laws that do not permit large corporate ownership, has faced a series of protectionistic trade actions by the U.S. floral industry that is interested in keeping high prices for flowers in the U.S. I am sure most of you realize that 8 or 10 years ago a dozen roses could only be purchased in a flower shop at a very high price and that now, such flowers are available more generally in supermarkets and other areas and are affordable to the average consumer. This is a result mostly of healthly competition that is coming from foreign sources. However, U.S. domestic flower producers first brought a countervailing duty case against Mexico in 1986 and later an antidumping case, which is still going through its third annual review. The countervailing duty investigation found that no illegal subsidies had been paid by the Mexican Government to flowers exporters. Nevertheless, the cost of defending these investigations is very great for small industries. In the case of antidumping laws, the questionnaires of the Commerce Department that must be filled out in a computer format are sometimes a barrier to small farmers in Mexico that do not even keep their records in the form that the Commerce Department requires. Many Mexican flower exporters are paying a very high "all other rate" rate of almost 30%, not because they are dumping, but because they can not afford the cost of filling out a questionnaire and going through an individual review to have a dumping rate assigned to them, as required by the Commerce Department regulations.

These types of trade barriers are viewed by Mexican exporters with some confusion. The U.S. is, after all, one of the most developed and economicaly healthy countries in the world. The U.S. has an interest in the development of Mexico, not just from an economic viewpoint, but also from a politico-military viewpoint. Although Mexico has had a stable democratic government and has been an ally of the U.S. militarily for many years, unlike other countries in the southern hemisphere, Mexico has not been fully rewarded for its very positive efforts as a friend and ally of the United States. We are spending millions of dollars in aid to countries such as Panama, El Salvador and others, but we have "nickled-and-dimed" Mexico by taking away various types of trade benefits from them, or imposing high tariffs. These policies just do not make sense economically, politically or militarily. For example, under the Generalized System of Preferences, Mexico is deemed to be an advanced developing country and up until this year, more and more products from Mexico were gradually removed. The USTR also a policy of not redesignating products from Mexico, even though they fell below the competitive need limits. This year, for the very first time, the U.S. Trade Representative, in what I consider to be a very important and positive move has rewarded Mexico with significant additional benefits under the Generalized System of Preferences, including redesignation of products. However, this is only the first step in what has been a very slow response by the U.S. to recongnize the tremendous reforms that Mexico has made.

A serious reevaluation of any of the high duties in the U.S. that affect imported products from Mexico needs to be made. This can very well be done in the context of a free trade agreement. While it is probably too early to discuss specifics of such an agreement, certainly one approach would be sectoral negotiations on various groups of products, perhaps starting with those of less difficulty, such as automotive parts, and then moving into those that may be more difficult, such as textile and agricultural products. The goal should be the elimination of the tariff barriers, perhaps phased in over a period of years. At the same time, I think it should be recognized that dispute settlement, particularly in relationship to non-tariff barriers and unfair trade practices should be handled on a bilateral basis, similar to the system that we have with Canada. Mexico now has antidumping and countervailing duty laws similar to ours and experience in enforcing them and there is no reason that a review of decisions in both countries on these issues could not be handled by a bi-national commission in a manner similar to the U.S.-Canada Agreement. In my opinion, the administration of the U.S. countervailing and dumping laws has been in itself a non-tariff barrier by imposing numerous restrictions and deadlines on Mexican exporters that are very difficult for them to meet at their level of development. While these administrative procedures and regulations may not be difficult for large Japanese steel companies to comply with, they are very difficult for Mexican agricultural producers, and there is really no flexibility in the Commerce Department regulations to allow for these differences. The so-called "best information available" rules are used frequently in an unnecessarily punitive manner to impose very high duties on Mexican companies that, through no fault of their own, are not able to supply all the detailed information required by the Commerce Department. Any agreement between the U.S. and Mexico on trade should address these problems to reduce these administrative barriers and should have both countries involved in shaping the rules and regulations that cover such areas as dumping and countervailing duties, and other types of unfair trade practice mechanisms.

I also believe that any free-trade agreement should also address Customs formalities and involve changes in regulations and perceptions by the U.S. Customs Service that have often imposed hardships on both Mexican exporters and U.S. importers operating Maquiladora plants in Mexico. The Maquiladora program, which operates under former Section 807, currently known as 9802.00.80 was also the subject of an International Trade Commision Section 332 investigation within the last several years. The ITC found that contrary to the position of organized labor, these Maquiladoras had not really resulted in the loss of U.S. jobs, but U.S. jobs were created in other sectors, including the manufacture of the inputs that went into these Maquiladoras and it was essentially "a wash" in terms of jobs lost in the U.S. and those created. In spite of the long history of Congressional support for the concept of production sharing through these tariff incentives, the U.S. Customs Service has generally taken a very restrictive view of these laws that had made it more difficult for U.S. companies to utilize the program. I have been involved in numerous rulings from Customs in these areas, where Customs has taken very restrictive interpretations of their own prior rulings or court decisions, that have made it more difficult for U.S. companies to utilize these programs. I think the U.S. must recognize that production sharing with Mexico is inevitable and we should take advantage of the fact that we do have a neighbor that provides these opportunities for certain lower cost production to enable the U.S. companies to remain more competitive with their adversaries and competitors in other parts of the world. I testified before the ITC during their investigation relating to former Section 807. I mentioned an example of one of my own clients in Rhode Island that was seriously in danger as to its survival because of low-priced competition from the Far East. They had a choice to close the business or to become an importer, both of which would have hurt the U.S. employment. Instead, they engaged in production sharing in Mexico, which enabled them to become more competitive and the company has since prospered and expanded. Although some assembly jobs were transfered to Mexico, more raw materials needed to be created in its U.S. plant to be sent to Mexico and that benefitted its workers and the economy in the State of Rhode Island.

I read with interest a recent article in the Chicago Tribune, of June 17, 1990, about how many firms in Illinois are benefiting from trade with Mexico. "Illinois Firms Finding Mexico Dealings Easier," Chicago Tribune, Business Section, p.1, June 17, 1990. I point this out since Mr. Rostenskowki, the Chairman of the full committee is from that State. This article indicated that Mexico was the sixth largest export market from Illinois and an Illinois trade official is quoted as to how Mexico has "opened the borders" and how such U.S. companies, as Federal Signal and General Binding all found that trade with Mexico has been beneficial to their company.

In conclusion, as we know, Mexico is our third largest trading partner and we account for two thirds of its total trade. The time has come to have a real trade policy with Mexico, not an ad-hoc policy that differs from month to month and year to year. In 1992, the U.S. will become more isolated due to the complete integration of the European Community. We very much need our relationships with Mexico and with Canada to provide comparable trading regimes to what will exist in Europe. It is time to forget the traditional stereotype towards Mexico and treat Mexico as an equal partner in the future development of our two economies that in my opinion will result in increased prosperity for both countries in the future.

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REYNERA

June 25, 1990

CONGRESSMAN DAN ROSTENKOWSKI
2111 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515-1308.

Honorable Mr. Dan Rostenkowski

First of all accept my apologies for taking the liberty to transmit this letter to you. Our company is located in the northeastern part of Mexico and - produce corn and mixed brooms. The purpose of this is to ask your reconsideration about H.R. 1594 section 1107 that will increase at 32 percent duty the imports of the mixed brooms.

We know the original tariff of 32 percent was designed to protect U.S. - - Manufacturers from Mexico's cheap labor. At the present time the situation is completely different as 1965 and the following facts will demonstrate what we - are stating.

1. Brooms in part of broom corn were never intended to receive protectic In that time the tariff commission's investigation focused on brooms made of broom corn. It still remains unclear how come the words "Wholly or in part" were included in this tariff.

2. Mixed brooms are different than 100% corn brooms (attachment 1).

3. In 1965 broom manufacturers produce only corn brooms. At the present time they produce mops (0% duty) brushes (0% duty), plastic brooms (0% duty) and a whole line of products of the clean industry (attachment No. 2).

4. The blind industry's production is almost entirely for state and local Goverment use since they started to operate; beside this, their production is not more than 5% of the total market (attachment No.3).

5. Plastic brooms (no biodegradable) are imported from Italy, Brazil, Venezuela, etc. in huge quantities at 0% duty. (attachment No. 4).

6. Basin agreement allows to export to U.S. either 100% corn brooms or mixed brooms at 0% duty from countries like Honduras, Panama, Guatema etc.. American dealers of raw materials did not complain because they are selling the mexican broomcorn to those countries and either way they are doing business.

7. Because of the 32% duty protection a lot of mexican workers are going illegaly to U.S. hoping to find jobs in the broom industry. You could

ESCOBERA LA REYNERA, S. A.

CARRETERA A ALLENDE KM. 1 APDO. No. 90 67480-CADEREYTA JIMENEZ, N. L., MEXICO TELS. (828) 4-04-20, 4-06-80 Y 4-06-29

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REYNERA

check in Libman Co's plant. (This Company is in Arcola, Ill.).

8. In 1965, brooms were made by winding the broom corn to the stick producing 220 units por shift. At the present time because of new technology brooms are made by nailing a metal band that contains broom corn. With this kind of machine the operator can manufacture 5 units per minute (2,400 per shift). More than ten times that traditional winding process. (attachment No. 5).

We are selling mixed brooms to broom manufacturers, distribuitors and retails so they can compete with the plastic brooms that come from other countries; please give us the opportunity to serve our customers and consumurs in your country. The market is very dinamic. We can not live in the past. Our president is telling us that we have to be efficient and competitive by ourselves; how come we can be competitive with a 32% duty.

I am sorry to disturb you and I thank your time and attention.

With all my respect

JORGE TREVIÑO SADA

ESCOBERA LA REYNERA, S. A.

CARRETERA A ALLENDE KM. 1 APDO. No. 50 67480-CADEREYTA JIMENEZ, N. L., MEXICO TELS. (828) 4-04-20, 4-06-60 Y 4-05-29

Chairman **Gibbons**. Thank you, Mr. Glick and because of the hour I am going to have to conclude these hearings now. I want to thank each of the witnesses for coming and contributing and we will have to adjourn this session at this time.

Thank you, very much.

[Whereupon, at 1:25 p.m., the hearings were adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE
INTERNATIONAL TRADE ADMINISTRATION
OF THE U.S. DEPARTMENT OF COMMERCE
ON U.S.-MEXICO ECONOMIC RELATIONS

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
JUNE, 1990

MEXICAN ECONOMIC REGIME

The Mexican economy is emerging from seven years of low economic growth and high inflation to a period of optimism and increased business confidence. This has been achieved through a program of economic reform that is reducing the government's role in the economy as well as opening the economy to international competition.

Since 1987, when consumer price inflation reached nearly 160 percent, the top priority for the Mexican government has been to reduce and control inflation. In December of that year, the Economic Solidarity Pact (the "Pact") was announced. The Pact combined strict fiscal and monetary policies, wage and price controls, and an exchange rate policy that allowed the peso to significantly appreciate in real terms against the dollar, making imports less expensive.

The Pact and its successor, the Pact for Stability and Economic Growth, have succeeded in reducing inflation. Consumer price inflation was brought down from 160 percent in 1987, to 52 percent in 1988, and lowered to 20 percent in 1989.

Progress on the inflation front has not been without cost. Price controls are pressuring profit margins. Constraints on wages, especially the minimum wage, have resulted in reduced purchasing power for workers. Cutbacks in discretionary government spending are seriously affecting the country's infrastructure. High real rates of interest, needed to support the exchange rate of the peso, are constricting domestic investment and, hence, constraining economic growth. The government recognizes these problems and is beginning to allow modest price increases in areas such as steel and energy. Duties on exports of cattle have been eliminated. The problem facing the government is allowing price adjustments while preventing another outbreak of rapid inflation.

The appreciation of the peso, combined with the reduction of trade barriers, caused imports to surge by 55 percent from $12.2 to $18.9 billion during 1988. The flow did not abate in 1989, as imports increased by 24 percent to $23.4 billion despite a small devaluation of the peso in real terms.

Mexico's imports consist primarily of intermediate goods, (approximately 65 percent) and capital goods (approximately 20 percent). The strength of these imports shows increased investor confidence in Mexico on the part of its businesses community.

However, consumer goods now account for a growing share of Mexico's import bill. In 1989, consumer goods were about 15 percent of Mexico's total imports, compared to 10 percent in 1988, and in 6 percent in 1987. Demand for consumer goods, particularly agricultural products, should remain strong, benefitting U.S. exporters.

Mexico's efforts to diversify its exports, away from reliance on petroleum, have been a success. Non-petroleum products now account for approximately two-thirds of Mexico's exports, with petroleum products accounting for the remaining third. In contrast, in 1983 the product mix was the reverse.

Debt

At the end of 1989, Mexico's external debt totalled $95 billion, down from $107 billion at the end of 1987. This reduction can primarily be attributed to the private sector paying off its debt at a time of a favorable exchange rates. In early 1990, Mexico restructured $48 billion in public sector debt owed to commercial banks. The restructuring took three forms: principal reductions, interest rate reductions, and new lending. Banks holding about 90 percent of eligible debt chose principal or interest rate reductions. The World Bank and International Monetary Fund have committed new funds to Mexico.

The debt agreement produced positive results. Rates on government securities dropped over twenty percentage points, reducing government expenditures and inflationary pressures. As a sign of confidence on the part of the business community, flight capital is beginning to return to Mexico. This agreement should enhance opportunities for U.S. exporters and investors by helping restore Mexican economic growth.

Mexican Trade and Investment Reform

President Salinas continues his courageous reforms in Mexico. Privatization is a key part of this reform, and is designed to free government resources by targeting over 25 areas of the Mexican economy. In December 1982, the Government of Mexico owned over 1,100 entities. As of February 1990, 801 of these had been divested or authorized for divestiture.

In intellectual property, we have not seen a new patent and trademark law yet, but Mexican government officials have promoted it as a great improvement to potential investors. We look for any new law to provide adequate protection for patents, trademarks, and trade secrets, as well as for products not yet commercialized in Mexico. The Mexican government has introduced a new copyright law, which will substantially improve copyright protection, especially for software.

Other dramatic reforms include a Constitutional amendment introduced last month to repeal the 1982 nationalization of the country's banks and reopen the financial system to private investment. This proposal aims to bring several billion dollars into the Mexican treasury, improve domestic and global business confidence in Mexico, and allow for more sophisticated and efficient financial management. The Mexican stock market has risen nearly 25% percent this year as a result of all these changes, which is a substantially better performance than most of the markets in the rest of the world. However, we continue to be concerned about limits placed on foreign investors in financial services.

Areas in which regulations have been reduced or improved now include transportation, maquila, general investment, technology transfer, taxes, insurance, computers, and motor vehicles. All of these improvements are making the trade and investment regime more attractive to U.S. business, as well as making Mexico a more efficient economy.

BILATERAL TRADE

Mexico is our third largest trading partner and our third largest export market. Two-way trade reached an all-time high of $52 billion in 1989, which is a 20% increase over 1988, and up 50% from 1987.

U.S. Exports

Mexico is our third largest export market, and one of our fastest growing markets, as well. As part of the anti-inflation program, the government allowed the peso to appreciate in real terms against the dollar during 1988. This appreciation, combined with the reduction of trade barriers, and the beginning of economic recovery, caused imports to surge into Mexico during 1988 and 1989.

Totalling $11.3 billion, machinery and transportation equipment dominate our exports to Mexico. Parts and accessories for motor vehicles are the major component of this sector of our trade, totalling $2.6 billion. Exports destined for the automobile sector have grown from $1.1 billion in 1986, due to expanded production of vehicles in Mexico, both for export and domestic consumption. A large portion (about a quarter) of U.S. exports have been spurred by the expansion of the maquiladora program, which uses a substantial portion of U.S. materials and components.

Poor harvests, and policies which discourage production of agricultural products, have allowed U.S. exporters of agricultural products to increase their sales to Mexico. At $570 million in 1986, exports of food and live animals totalled $2 billion in 1989. Major exports include cereals, particularly corn and sorghum, meat, dairy products and vegetables. While Mexico is a strong market for U.S. agricultural exports, those exports continue to face barriers, such as import licensing and phyto-sanitary requirements.

U.S. Imports

U.S. imports from Mexico reached a record $27.2 billion in 1989, an increase of nearly $4 billion from 1988, and approximately $10 billion from 1986. The increase in imports from Mexico can be attributed to higher petroleum prices and Mexico's successful efforts to establish a competitive manufacturing sector.

Manufactured goods dominate our imports from Mexico. At $17.5 billion, our imports of these products have grown from $9.4 billion in 1986. In 1989, our imports from Mexico of manufactured goods exceeded our imports of all products from Mexico in 1986. The flow of these manufactured goods continues, despite currency valuations that have increased the cost of Mexican-made products. Machinery and transportation equipment dominate this trade, particularly motor vehicles and parts.

A large portion (over 60 percent) of U.S. imports of Mexican manufactured products consist of assembled products with high U.S. content. For some sectors, such as electronics and transportation equipment, products assembled of U.S. components account for a much higher share (about 90 percent.)

In 1989, the United States imported $4 billion of crude petroleum from Mexico. This $1.2 billion increase (30 percent of the total increase of our imports from Mexico) was caused by higher prices for petroleum during 1989. Crude petroleum is our largest single import from Mexico. In 1989, Mexico was the number three beneficiary of the United States' demand for imported oil.

Agricultural imports continue to be an important element of our trade with Mexico. U.S. imports of these products totalled $2.4 billion in 1989, and were led by vegetables, shrimp and coffee. In general, U.S. imports of agricultural products have remained somewhat static since 1986.

Trade Balance

The United States ran a $2.3 billion merchandise trade deficit with Mexico in 1989. This was an improvement over the $2.9 billion deficit in 1988, and the $5.7 billion deficit in 1987. Increased costs of petroleum, from an average $12.17 per barrel in 1988 to $15.71 in 1989 are an important factor in the deficit.

During 1990, the deficit should continue to narrow. On the import side, crude petroleum imports from Mexico may decline, due to increased demand in Mexico for petroleum, decreasing exploration, and the end of shipments to the United States Strategic Petroleum Reserve. On the export side, we should see further increases in U.S. exports of machinery and primary goods as the Mexican economy continues to grow.

Investment

U.S. business has invested over $5 billion in Mexico--a figure which has not met Mexican needs to stimulate growth. Although conditions for investment have improved in Mexico, many concerns remain. Among those concerns are a need for improvement in intellectual property protection (which the Government has said is coming this year), an economy with high growth, a business climate unfettered by excessive government controls, and a change in the permanent statutory laws governing direct foreign investment.

Overall, the outlook for the Mexican economy is good, although unemployment will remain high (it is currently estimated to be 18 percent), and agriculture will remain depressed. However, growth in manufactured exports will help increase foreign trade revenues. Economic growth was 2.9 percent range during 1989, a real improvement over 1988's 1.1 percent. Economic growth in 1990 should also be around 3 percent, with inflation reaching 20-25 percent. The slowly improving health of the Mexican economy will directly benefit bilateral trade.

U.S.-MEXICO TRADE RELATIONSHIP

Current

The U.S. Department of Commerce is involved in several trade and investment agreements with Mexico. In October of last year, Commerce established the U.S.-Mexico Joint Committee for Investment and Trade to identify, develop, and promote commercial opportunities between our two countries.

The first action of the Joint Committee was to conduct a business development initiative by taking sixteen CEOs to Mexico City to explore commercial opportunities in key growth sectors. Two additional missions have taken place--one on petrochemicals, and one on insurance. Two more are scheduled, in tourism and pollution control. These missions are succeeding in educating U.S. business about the new opportunities afforded by improvements in Mexico's trade and investment climate.

In addition, we are organizing a technical legal exchange for U.S. corporate counsel to meet with Mexican government officials. The goal of these meetings at the end of June is to enhance commercial relations by educating the U.S. and Mexican legal communities about laws and regulations affecting foreign trade and investment.

Another accord signed in October of last year was the Trade and Investment Facilitation Talks agreement. A mandate was thereby provided for negotiating trade and investment agreements in areas of mutual interest. Both countries agreed to move forward and negotiate agreements in the areas of petrochemicals and standards, and are exploring mutual goals in these areas. No meetings have been held yet due to scheduling difficulties with the Mexicans.

The third agreement covering trade and investment is the 1987 Framework Agreement, which provided a consultative mechanism for areas of concern to either country. Working groups in steel and textiles have been very active as Mexico sought, and achieved, increased access to U.S. markets.

The intellectual property rights working group has also been active, as last year Mexico was placed on the Special 301 "priority watch list" for inadequate intellectual property protection. Because of Mexico's commitment to introduce legislation this year to dramatically improve this protection, it was removed from the list. Progress has also been made in the insurance and transportation working groups, thereby improving our overall trade relationship.

Future

Mexico's strides in economic reform, trade and investment liberalization measures, improved bilateral understanding, and a sharp increase in trade, have all stimulated a great deal of interest in expanding commercial flows between our two countries. Much of this interest has been focussed on a U.S.-Mexico Free Trade Area. Considering the level of economic interaction which already exists between our two countries, the 2000 mile border we share, and the fact that roughly one third of U.S.-Mexico trade is already duty free, the idea to evaluate the benefits of an FTA is a sensible one. Thus far, the reaction from our business community has been quite positive.

The Mexican Congress has submitted a statement recommending negotiation of an FTA with the United States. In general, reaction in Mexico has been positive in recognition of the need for foreign investment and export expansion to promote economic growth.

The greatest possible mutual benefit of such an agreement would result from a comprehensive and gradual elimination of barriers to trade and investment. To our business community, comprehensive means elimination of tariffs and non-tariff barriers, intellectual property protection, a fair dispute settlement mechanism, and provisions for the free flow of goods, services, and investment between our two countries.

Our objective is to foster a climate of increased stability and confidence for trade and investment between our two countries. The United States and Mexico can thus reenforce broader economic relations, promote economic growth, and enhance the welfare of the people of both nations.

WRITTEN STATEMENT
OF
AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

The American Association of Exporters and Importers (AAEI) is a national organization with over 1100 U.S. companies as members, involved in every aspect of international trade. The promotion of fair and open trade among nations is the primary mission of AAEI, and has been for the 69 years of its existence. AAEI welcomes the opportunity to commend the efforts and notable achievements made by the government of Mexico to liberalize its economy and open its doors to international trade. Further, AAEI supports the initiatives of Presidents Bush and Salinas de Gortari to undertake consultations and preparatory work towards negotiations of a U.S. - Mexico Free Trade Agreement. Many of AAEI's members are engaged in substantial trade with Mexico, and these developments serve to greatly improve trading relations between the two countries.

The measures taken by Mexico to liberalize both its trade and investment practices have had important implications for U.S. business. By acceding to the General Agreement on Tariffs and Trade (GATT) in 1986, Mexico agreed to follow the rules and disciplines governing the international trading system and to liberalize its restrictive trade regime. Today businesses dealing with Mexico face substantially reduced import tariffs, even below its GATT obligations, much fewer import licensing requirements and greater transparency. Recent reforms will allow more imports in sectors protected by development decrees: automobiles, electronics and pharmaceuticals. Overall, these measures have encouraged U.S. exports and remarkably Mexico is the third largest market for U.S. exports.

Major reforms introduced in May 1989 to a 1973 law allow much greater foreign investment in Mexico. One hundred percent foreign ownership is now granted in sectors which account for 73% of the Mexican economy. Additionally, the 1989 Maquiladora Decree streamlines the administrative procedures for expanding or establishing of a maquiladora. The Decree creates greater certainty for long-term investments by granting Maquila licenses for an indefinite, open-ended period, rather than for just two years. These reforms have improved the operating environment for U.S. business.

The U.S. and Mexico have witnessed improved economic relations as a result of the "1987 United States-Mexico Bilateral Framework Understanding", Sectoral Accords on steel, alcohol, and textiles, and the "1989 Understanding Regarding Trade and Investment Facilitation Talks." The most dramatic evidence of improved bilateral relations occurred on June 11, 1990, when President Bush and President Salinas de Gortari announced that they would undertake consultations and preparatory work needed to initiate negotiations for a free trade agreement. AAEI strongly supports these efforts, recognizing the extensive benefits for both countries. Indeed, free trade will stimulate increased trade among the two countries, thereby encouraging economic development. Mexico is a large and growing market that will offer immense opportunities for U.S. business in the 1990's. Moreover, the guarantee of market access for both countries will allow a more predictable operating environment.

In the meantime, the successful conclusion of the Uruguay Round Trade Negotiations at the GATT must take precedence, as the two Presidents have affirmed. A U.S.- Mexico FTA should be consistent with the principles of the GATT, and complement liberalization achieved in the Uruguay Round. Undoubtedly, a careful analysis is necessary before the initiation of such an endeavor. With this in mind, the recently formed AAEI U.S.- Mexico Free Trade Agreement Subcommittee is ready and willing to assist the Administration in their efforts to initiate and pursue free trade between the United States and Mexico.

STATEMENT

OF

JAMES A. PEARSON

PRESIDENT

CRYSTAL LAKE MANUFACTURING, INC.

HEARING ON UNITED STATES - MEXICO ECONOMIC RELATIONS

BEFORE THE SUBCOMMITTEE ON TRADE

COMMITTEE ON WAYS AND MEANS

UNITED STATES HOUSE OF REPRESENTATIVES

DATED AS OF JUNE 14, 1990

Mr. Chairman, I appreciate the opportunity to submit a written statement to the Subcommittee on Trade of the House Ways and Means Committee concerning economic relations between the United States and Mexico. My father founded a broom manufacturing company in 1935, now known as Crystal Lake Manufacturing, Inc. ("Crystal Lake"), headquartered in Autaugaville, Alabama. Crystal Lake is family owned and manufacturers and distributes brooms, mops, mop sticks and general purpose handles. Crystal Lake currently employs 230 people. Over half of the employees are women and approximately 95% are minority. The employees of Crystal Lake are members of the Retail, Wholesale and Department Store Union which is a division of the AFL-CIO. Depending upon seasonal employment, Crystal Lake is the second or third largest employer in Autauga County, Alabama, one of the poorest counties in the United States. Crystal Lake distributes its products nation wide and exports internationally on a wholesale basis.

It is my pleasure to represent the broom division of the American Brush Manufacturers Association, and it is in that capacity that my statement is provided. The domestic broom manufacturing industry had been favored since 1965 by a tariff quota and duty until the conversion to the Harmonized Tariff Schedule of the United States (HTS) from the Tariff Schedules of the United States (TSUS) on or about January 1, 1989. In the conversion from the TSUS to the HTS, with respect to the tariff schedule which referred to brooms, the words "wholly or in part of broom corn" were inadvertently omitted. Thus, when the United States implemented the HTS, the words "wholly or in part" were not contained therein. The omission of these words resulted in a ruling from the United States Customs Service on August 24, 1989 (#084709), stating that brooms not in essential character of broom corn are not broom corn brooms and, therefore, not classifiable under the subheading which would make them subject to a quota and a higher tariff.

Until the conversion from the TSUS to the HTS, the tariff treatment for brooms was as follows:

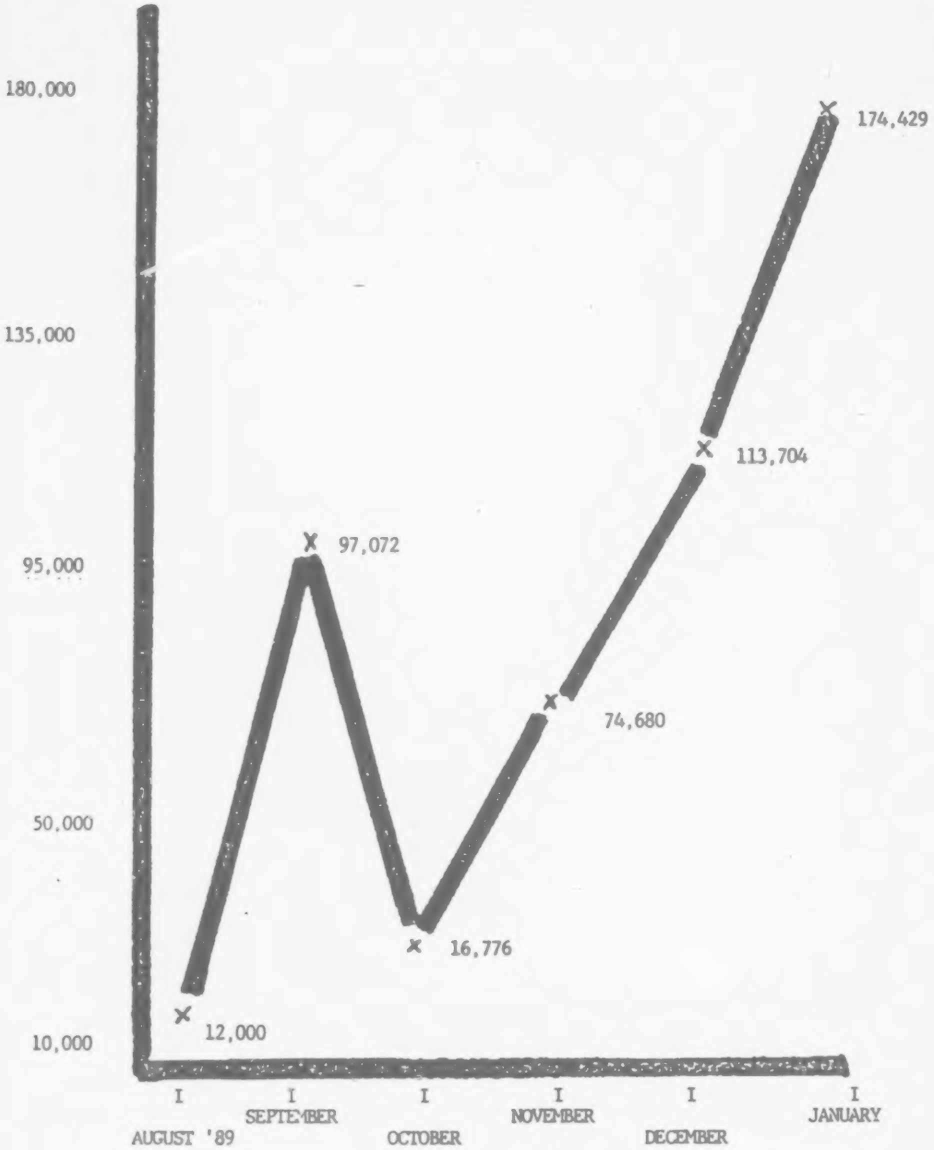
TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1987)

SCHEDULE 7. - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS
Part 8. - Combs; Hair Ornaments; Brooms and Brushes;
Paint Rollers; Umbrellas and Canes

Item	Stat. Suf-fix	Articles	Units of Quantity	Rates of Duty		
				1	Special	2
		Brooms and brushes consisting of vegetable materials bound together but not mounted or set in a block or head, with or without handles:				
		Brooms wholly or in part of broom corn:				
		Whiskbrooms:				
		Valued not over 63¢ each:				
750.26	00	In any calendar year prior to the entry, or withdrawal from warehouse, for consumption of 61,655 dozen (or such modified quantity as may become applicable under headnote 3(a) to this subpart) whiskbrooms classifiable under items 750.26 to 750.28, inclusive	No.	8% ad val.	Free (E,I)	30% ad val.
750.27	00	Other	No.	12¢ each	Free (E) 3.8¢ each (I)	12¢ each
750.28	00	Valued over 63¢ each	No.	32% ad val.	Free (E,I)	33% ad val.
		Other brooms:				
		Valued not over 96¢ each:				
750.29	00	In any calendar year prior to the entry, or withdrawal from warehouse, for consumption of 121,478 dozen (or such modified quantity as may become applicable under headnote 3(a) to this subpart) brooms classifiable under items 750.29 to 750.31, inclusive	No.	8% ad val.	Free (E) 3.2% ad val.(I)	20% ad val.
750.30	00	Other	No.	32¢ each	Free (E,I)	32¢ each
750.31	00	Valued over 96¢ each	No.	32% ad val.	Free (E,I)	33% ad val.
750.32	00	Other	No.	10% ad val.	Free (A,E) 4% ad val.(I)	35% ad val.

The following chart indicates the dramatic increase in broom imports since the August 24, 1989, United States Customs Service ruling was issued that effectively allowed broom corn brooms to be imported duty free:

IMPORTS OF 9603107000 CATEGORY BROOMS FROM MEXICO



H.R. 1594, an act to make miscellaneous and technical changes to various trade laws, is currently pending in a joint House/Senate Conference Committee. The Senate approved version of H.R. 1594 contains a provision, Section 1107, which would restore the tariff treatment of imported brooms made in part of broom corn to that which existed under the old TSUS. This section would revise the HTS provision to add back the text "wholly or partly" to ensure that the tariff rate quota will apply to all brooms containing broom corn. I strongly urge that Section 1107, as approved by the Senate, be retained in the Conference Committee version of H.R. 1594.

Assuming that legislation is enacted which would restore the tariff treatment of imported brooms made in part of broom corn to that which existed under the old TSUS, then the next issue will be to determine how this matter is to be treated in the upcoming trade negotiations between the United States and Mexico. A major revision of this tariff and quota, if desirable, should be the result of negotiation with our trading partners, not of a unilateral concession based on an omission. However, I do not believe that major revision of this tariff and quota is desirable.

If the upcoming trade negotiations between the United States and Mexico result in the allowance of broom corn brooms to be imported duty free, as a practical matter, the domestic broom industry will be eliminated. Already eleven domestic broom factories have closed their doors and ceased production since August of 1989. While most of the individuals unemployed as a result of these closings are skilled broom makers, in most cases they are difficult to reemploy due to lack of other skills. If the TSUS tariff quota and duty with respect to brooms is substantially revised in the trade negotiations, then the unemployment recently experienced in the domestic broom manufacturing section will worsen.

The favorable tariff duty and quota with respect to imported broom corn brooms was placed into effect in 1965 due to, among other reasons, the tradition of the broom industry of employing handicapped individuals. While the handicapped comprise a small part of the broom industry, a domestic broom manufacturing industry remains very important to the handicapped as a source of gainful employment. This avenue of employment will be closed in the absence of a favorable tariff duty and quota.

Approximately 99% of the broom corn for the broom corn brooms manufactured at Crystal Lake is imported from Mexico, with the remaining 1% imported primarily from Africa. Such numbers are representative of the virtual monopoly Mexico has on the global production of broom corn. While I remain confident that the manufactured product of Crystal Lake is superior in quality to a similar product manufactured in Mexico, Crystal Lake's labor costs are much higher than those of a Mexican competitor. Without a favorable tariff duty and quota, the combination of the control over the raw materials and the cheap labor would result in a virtual monopoly on world broom manufacturing by Mexico. A monopolistic situation ordinarily means spiraling prices for consumers.

I have been approached by representatives from Mexico requesting that Crystal Lake move its manufacturing operations to Mexico. I could do so and continue to prosper. Most employees of Crystal Lake would then become unemployed and may have great difficulty becoming reemployed. I would not want that to happen, but the absence of a favorable tariff quota and duty with respect to broom corn brooms could force such a prospect.

I urge that our trade negotiations with Mexico result in a continuation of a favorable tariff duty and quota with respect to the import of broom corn brooms. Otherwise one more domestic manufacturing section will become extinct.

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

SUBMITTED TO THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES

RE. U.S.-MEXICO ECONOMIC RELATIONS

JUNE 25, 1990

This statement is submitted by the American Textile Manufacturers Institute (ATMI) on behalf of its member companies which make and sell the entire range of textile mill products. ATMI's member companies account for more than 75 percent of the fiber consumed annually by the domestic textile mill products industry.

ATMI welcomes the opportunity to comment on the future of trade relations with Mexico and thereby to bring to the Subcommittee on Trade's attention some of the key aspects of trade relations between the two countries and set forth ATMI's concerns regarding the future of these relations. Such discussion must, it would appear, be accomplished against the backdrop of the existence of a United States-Mexico Free Trade Agreement (FTA), identical or similar to the U.S.-Canada FTA. Indeed, if press reports are any guide, a U.S.-Mexico FTA is a fait accompli, the only remaining question being one of timing.

The Subcommittee has doubtless been provided with copious data defining the Mexican economy and U.S.-Mexico bilateral trade, so ATMI will refrain from incorporating redundant or repetitive statistics in the present statement. However, we would like to emphasize two points that have undoubtedly appeared to the Subcommittee:

1. The economy of Mexico while improving, still has major problems, the underlying causes for which reach back decades and to the very core of its society and government.

2. The economy of Mexico is almost completely dependent on the United States as the largest market for its exports.

These facts are inescapable. The efforts of President Salinas to take the necessary steps to address the former are courageous and commendable, but ATMI's concern is that the latter will serve as the primary vehicle to correct the former. Of all the economic and fiscal tools which could be employed to reform and improve a sick economy, ATMI is of the opinion that the one Mexico will employ foremost is expanded exports to the United States--why else the request for a Free Trade Agreement.

Mexico's plan for economic reform will extract a price from many quarters, but nowhere more so than the American workplace. Opinions have been expressed that a free trade agreement will result in the loss of American jobs not only by those most directly concerned--labor unions and manufacturing firms--but by seemingly disinterested observers as well. In an article appearing in a callously elitist editorial in the June 16, 1990 edition of the **New York Times**, it was noted that one effect of a U.S.-Mexico FTA will be that "In the U.S., textile and steel workers will be forced to scramble for new jobs at lower wages." It is clear that many thousands of American wage-earners will be forced--not asked, forced--to pay a dear price for Mexico's economic reform.

As the Times editorial points out, those industries which will be hardest hit are basic manufacturing industries, including textiles and textile products, i.e. apparel. Despite dramatic changes in the engineering of the production process and the introduction of much automated equipment, apparel manufacturing remains a highly labor-intensive business in which the single largest element of cost is wages. It is not surprising, therefore, that over half of the American market for apparel has been lost to foreign countries in which apparel workers' wages are a fraction of what they are in the United States. These offshore competitors do not enjoy a comparative advantage, for they cannot and do not make apparel faster and better than the U.S. industry: they have an absolute advantage by virtue of their far lower labor costs and absence of regulatory burdens. One of these countries is Mexico.

Even in the absence of a Free Trade Agreement, Mexico's exports of textile and apparel to the United States have grown rapidly, more than doubling during the four years from 1985 to 1989. (See appendix A). Imports of Mexican textiles and apparel during 1989 had a value, F.O.B. Mexico, of $645.8 million.

Mexico's exports of textiles and apparel to the United States are controlled--although obviously not very stringently, as Appendix A demonstrates--by a bilateral textile trade agreement between our two countries. The agreement that was effective January 1, 1988 through December 31, 1991 was renegotiated in January, 1990 and the restraint levels incorporated therein--and accepted by the government of Mexico--were either eliminated or increased by an average of 25 percent in the new compact.

For this and many other reasons, there can be no question that the United States has been more than generous to Mexico in terms of assisting the development of its textile and apparel exports. Mexico is the sixth largest foreign supplier--among more than 150--of textiles and apparel to the U.S. market. These imports displace American jobs.

American textile and apparel workers have made their contribution to the furtherance of Mexico's economic growth and will continue to make further contributions as imports from Mexico continue to increase, as most surely they will. To require that further sacrifice be made by totally deregulating the flow of Mexican exports into the U.S. market, as would be the case in a free trade agreement, is wholly unacceptable.

Beyond the textile and apparel sectors, the glaring disparity between the stages of development of the United States' and Mexico's economies should only serve to caution those who wish to rush headlong into a free trade agreement.

APPENDIX A

U.S. IMPORTS OF TEXTILES AND APPAREL FROM MEXICO

Million Square Yards Equivalent

	TEXTILES	APPAREL	TOTAL
1985	136	110	246
1986	254	116	370
1987	335	160	496
1988	316	189	505
1989	305	210	515

COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

HEARING ON UNITED STATES-MEXICO ECONOMIC RELATIONS

July 9, 1990

WRITTEN STATEMENT ON BEHALF OF THE AMERICAN WIRE PRODUCERS ASSOCIATION

On behalf of the American Wire Producers Association, I respectfully submit our views on the status of economic relations, including bilateral trade, between the United States and Mexico.

The American Wire Producers Association is a national trade organization which represents American manufacturers of carbon, alloy, and stainless steel wire and wire products. Our membership also includes integrated and mini-mill producers of steel wire rod, wire drawers related to domestic rod producers, wire drawers related to foreign steel companies, and suppliers of machinery and other equipment to our industry. Member companies of the Association operate more than 110 plants in 27 states, and they employ over 20,000 American workers. Our members are efficient producers with modern facilities and a productive labor force. They supply more than 70 percent of the domestic market for steel wire and wire products, including round and flat wire, barbed wire, threaded bars, welded wire fabric, wire rope and strand, nails, staples, chain, coat hangers, concrete reinforcing mesh, and chain link fence.

The Association endorses the promotion of the free and fair exchange of goods between the United States and all of our trading partners, including Mexico. However, the Association is concerned that this goal may be undermined by certain imbalances in current trade relations between the United States and Mexico. We respectfully urge that these imbalances be redressed as part of the continuing discussions between the governments of the United States and Mexico on economic and trade issues.

First, Mexico imposes a much higher level of duty rates on imported wire and wire products than does the United States. The Mexican rates are generally between 10 and 15 percent *ad valorem*, whereas the corresponding American rates are between zero and 5.6 percent. These differentials are significant to an industry whose markets are extremely sensitive to even small variations in price.

Second, Mexican authorities assess a number of additional fees and charges with respect to the importation of steel wire and wire products. Mexico assesses a customs service fee in the amount of 0.6 percent, compared with the United States customs user fee of 0.22 percent. Our members also understand that Mexican authorities assess municipal taxes and a federal value added tax on imported products. These taxes further distort the price differential between Mexican and American products.

Third, our members are concerned that the Mexican industry may be targeting American markets for higher-valued wire and wire products, including mattress spring units, galvanized wire, poultry and stucco netting, and other woven and welded wire products. It is noted that the original voluntary restraint arrangement on steel products was amended in order to contain the surge of fencing and mesh products from Mexico, including steel fence panels, steel wire fabric, and welded wire mesh for concrete reinforcement.

Fourth, our members urge that the United States Government review the programs which Mexican federal, state and local authorities make available to Mexican manufacturers and exporters of steel wire and wire products. The continued existence of such programs confers an unfair advantage on the Mexican industry, which compounds the effect of Mexico's extremely low wage rates.

The Association is grateful to the Chairman and the other members of the Subcommittee for their consideration of these comments.

Respectfully submitted,

Robert T. Chancler

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SUBMISSION ON BEHALF OF
BLUE DIAMOND GROWERS

MEXICO

Excessive Trade Tariffs On California Almonds

Almonds are California's leading food export and the sixth largest U.S. food export. Leading the California almond industry, Blue Diamond Growers is the largest and most established handler of almonds. While producing about half of the California almond crop, over 70 percent of California's almond growers are members of the cooperative. Nearly 70 percent of the average world's crop is supplied by California.

Current tariffs restrict the quantity of U.S. almonds into Mexico and slowed acceptance of almonds as a mainstay product in the country. The tariff rate, based on invoice value, is 20 percent for shelled almonds and 15 percent for inshell. It is estimated that elimination of the tariffs would result in increased exports of U.S. almonds valued at $6 million.

California produces 100 percent of the U.S. supply of almonds. The California almond supply has doubled since 1980 and is expected to continue to produce increasing yields. Mexico's close proximity to California makes it a potentially good trading partner.

Mexico Market is Economically Underdeveloped

U.S. exports to Mexico totaled $24.97 billion in 1989, up 21 percent from 1988 which makes Mexico the fourth most important trading partner after Canada, the European Community and Japan.

Although most of Mexico's consumers are in lower income brackets, there is a sizable mid to upper income level that has grown over the last five years and lends itself well to being a potentially good California almond consumer. Diversification of Mexico's food import sources is a recent trade policy objective.

Mexico's relative low standard of living, represents a major barrier for almonds, given their relative high cost. Consequently, almonds appeal to a relatively small segment of the market. At the same time, however, those citizens with higher incomes have been receptive to American products, particularly products which signify wealth and reinforce their status within the country.

Almond Market Situation Analysis

The Mexican population totals slightly more than 84 million people with an average per capita almond consumption of .04 pounds. Prior to 1988/89, Blue Diamond did not sell snack almonds into Mexico due to the problems presented by the relative low income levels of the majority of the population. In FY 1988/89, however, Blue Diamond bulk sales increased dramatically from 45,000 pounds in 1986/87 to 1.3 million pounds, reflecting price declines due to a strong crop. At the same time, the demand for almonds was fueled, in part, by increased consumption of almonds by the mid to higher income households. This segment of the population while still a minority has grown significantly over the last five years.

Another important factor in this growth was the lowering of duties on almonds by approximately 50 percent. With this lexperience, we are confident that further reduction in duty will bring about increases in sales to Mexico.

Viewing this growth as an opportunity, Blue Diamond began to aggressively pursue entering the market with a line of snack products targeted to this small but growing segment. To this end, Blue Diamond engaged the assistance of the largest Mexican coffee manufacturer and distributor in Mexico which helped to increase distribution in chain stores in 1989 by 80 percent.

Entering FY 1990/91, Mexico has been one of the brightest growth markets for retail with volume at 199,255 pounds, exceeding goal by 33 percent.

In FY 1989/90, target markets were Mexico City, Monterrey and Guadalajara, which are the Republic's most populated cities. To date, Blue Diamond products are being sold in all major supermarket chains of the three mentioned cities and through several wholesalers. Sales growth has been favorable. This growth has been spearheaded by the introduction of a new flavor, Chili con Limon, developed to appeal directly to the hot spicy taste preferences of the Mexican market. The new flavor now represents the largest seller within Blue Diamond's retail line and has served well as an indicator to the Mexican retail trade of Blue Diamond's commitment to the market.

Blue Diamond plans to become even more aggressive in 1990/91 in its efforts to expand distribution and strengthen its competitive presence in Mexico. Any free trade agreement with Mexico which would encourage the free flow of products between the United States and Mexico can only help Blue Diamond achieve its overall objective to increase almond consumption worldwide.

6/12/90

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Submitted June 12, 1990

BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE HOUSE COMMITTEE ON WAYS AND MEANS

United States-Mexico Economic Relations

Statement Of The California Avocado Commission

This statement is submitted on behalf of the California Avocado Commission ("Commission") pursuant to the Subcommittee on Trade's request for private sector comments on the United States' economic relations with Mexico.

The Commission is organized under the laws of the State of California and represents all 6,000 avocado growers in the state of California. It is broadly responsible for increasing grower returns by conducting advertising, promotion and public relations for California avocados and engaging in industry-related activities that help create a more profitable marketing environment for California avocados. As part of this responsibility, the Commission works actively with the U.S. government on a range of trade policy concerns, including close involvement in U.S. bilateral and multilateral efforts relating to agriculture.

The U.S. Department of Agriculture maintains a quarantine on the importation of fresh avocados from areas that have an infestation of seed weevils, a pest that is extremely destructive to the avocado. Under this quarantine, fresh avocados from Mexico are banned.

Discussions with Mexico on trade liberalization are of concern to the California avocado industry because of Mexico's repeated efforts to use trade policy issues to lift the United States' long-standing phytosanitary ban on access for fresh Mexican avocados. In 1986, the Mexican government filed a petition for GSP treatment on fresh and prepared or preserved avocados. Although couched in terms of a GSP issue, the real reason for Mexico's requesting duty-free access was to lend support for the lifting of the seed weevil quarantine. GSP status was denied at that time, however, because of the U.S. industry's import-sensitivity. Most recently, the request was made in the context of the U.S./Mexico Bilateral Framework Agreement on Trade and Investment. It is now understood that access for fresh avocados has been identified as a trade policy concern in discussions on the U.S./Mexico Free Trade Agreement ("FTA"). For the reasons discussed in detail below, the Commission urges Congress to reject efforts to dilute U.S. quarantine efforts.

I. Phytosanitary Concerns over Seed Weevil Infestation Remain A Legitimate Justification for Denying Access to Mexican Fresh Avocados.

Mexican fresh avocados with seeds, estimated to represent more than 95 percent of Mexican avocado sales, have been denied access to the United States since 1914 because of infestation with the seed weevil. The seed weevil is a pest that lives in the seed of the avocado. Once infestation occurs, the seed weevil ruins the fruit, causing severe economic damage to avocado production.

Effective chemical treatment is not available at this time. In addition, should effective chemical treatment be found, treatment may not be possible since avocados are an extremely delicate fruit and cannot withstand the amount of chemical treatments that would be necessary to eradicate the pest once infested. The only effective means of control is to prevent the pest from spreading to U.S. production.

In recent years, USDA officials, in cooperation with the Mexican government, have conducted field surveys of Mexican avocado groves to check for the presence of the seed weevil and in each case, seed weevils have been found. Current quarantine restrictions remain essential for preventing the spread of the seed weevil to the United States. To lift the ban would risk the contamination of the entire United States' production. Under no circumstances should this ban be lifted until there is clear documented proof that the seed weevil has been eradicated from Mexican production areas.

Of immediate concern is the recent decision of President Bush and President Salinas to investigate the possibilities of a free trade agreement. It is urged that this forum not be used as a means of relaxing justified plant health and safety laws. Mexican officials have already indicated that they want all U.S. agricultural non-tariff barriers on the negotiating table in any free-trade negotiations. Jorge Collard, Mexico's director general of International Affairs in Mexico's Ministry of Agriculture, has been quoted as saying that Mexico will scrutinize U.S. sanitary and health regulations to make sure that they have not arbitrarily been put in place to hinder access to U.S. markets and protect national producers.

Phytosanitary and plant health issues relating to U.S./Mexico agricultural trade should be dealt with separate and apart from tariff and other access issues to avoid the possibility that they may be bargained away in return for a reduction in tariffs or access for other commodities. As recognized by Congress and the Administration in drafting the Canadian free trade agreement, justified phytosanitary and health concerns are best dealt with by experts in the field, separate and apart from general tariff and access discussions. Under the Canadian free trade agreement, phytosanitary issues are being handled by a special technical working group consisting of U.S. and Canadian government and industry experts.

II. Discussion of U.S. Duties on Fresh and Processed Avocados from Mexico.

U.S. imports of fresh avocados falling under H.S. 0804.40.00 and prepared or preserved avocados falling under H.S. 2008.99.10 are assessed a duty rate of 13.2¢/kg. Imports of frozen avocados under the category H.S. 0811.90.60.80 face a U.S. dutiable rate of 17% ad valorem.

Mexico is the world's leading producer of avocados. Over the last decade and a half its production has skyrocketed. Mexican production last year was roughly 1 to 3 billion pounds. This compares with U.S. production of 400 pounds. With the advantages of government subsidies such as long-term preferential financing, loan guarantees, technical support, import duty reductions on machinery and other aid programs, the Mexican avocado industry is as technically advanced today as the U.S. industry. Mexico has also benefitted from California-funded research paid by California avocado growers.

The U.S. industry currently relies on its domestic market for over 90% of its annual sales, although with the aid of Targeted Export Assistance (TEA) funds, it is developing consistent export markets. In recent years, imports to the U.S. have increased as Chile has become a significant player in global avocado production.

U.S. Imports
Fresh Avocados

Year	MTs
1981	760
1982	936
1983	1,872
1984	2,107
1985	1,697
1986	7,248
1987*	1,810
1988	5,649
1989	4,693

*The sharp decline in imports in 1987 was primarily due to the U.S. industry's bumper supply that year, which severely depressed prices and Chile decided to market its avocados elsewhere.

Source: Foreign Agriculture Service, USDA

For most of the decade, U.S. avocados have been unable to compete with subsidized foreign production in most export markets. Between 1981 and 1986, export levels continually dropped to a low of 5,444 metric tons. Exports have increased in recent years, but largely because of external factors that cannot be counted on to endure, such as Israeli short-falls and fluctuations in the value of the U.S. dollar. While TEA promotional activities have helped, U.S. avocados continue to be hampered by competition from subsidized foreign producers and a range of unfair tariff and non-tariff trade barriers in both producing and importing nations.

U.S. Fresh Avocado Exports

Year	MTs
1982	7,420
1983	8,418
1984	12,901
1985	5,444
1986	5,670
1987	13,501
1988	12,412
1989	

Source: Foreign Agricultural Service, USDA

Conclusion

The U.S. avocado industry urges Congress and the Administration to proceed cautiously in any action taken to liberalize agricultural trade with Mexico and trade in avocados in particular.

The legitimate health and safety concerns associated with access for fresh avocados from Mexico dictates that access continue to be denied. [It is also urged that any tariff negotiations take into consideration the potential for increase in U.S. imports of fresh and processed avocados from Mexico and the import-sensitivity of the U.S. industry.]

The Commission respectfully requests that the above comments be favorably considered in any action taken by Congress to liberalize agricultural trade with Mexico.

#0868o

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VE GROWERS
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June 20, 1990

STATEMENT SUBMITTED TO
SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515

By
Adin A. Hester, President
Olive Growers Council of California

TO: The Honorable Sam M. Gibbons, Chairman.

Mr. Chairman and Members of the Subcommittee on Trade, House Committee on Ways and Means.

The Olive Growers Council of California which represents many of the small olive growers througout the state, goes on record as opposing any and all steps to drop duties on olives flowing from Mexico into the United States. Presently, there is a five cent duty per pound of olives crossing the border. That represents $100 per ton.

All olive farmers oppose any reduction in tariffs on raw olives whether on a most-favored-nation basis or by elimination of duty. We ask that olives be withdrawn from any negotiations or discussions that would open the U.S./Mexico border to free flow of olives.

Currently the small duty on olives is a token amount. However, it does provide a limited balance to equalize values. The California olive industry is unique and has struggled to become economically viable for farmers in recent years. Now that prices are reaching better levels and providing more reasonable returns, to drop any small amount of duty could cause grower prices to drop $100 per ton which would hurt the farm community.

The olive industry is presently fighting strong import pressure from Spain, a country which pays the duty and yet is still able to undercut California prices. Much of the imported Spanish product sells in the U.S. Market for less than it cost the California producer to produce. Also, if California processors could buy raw olives in Mexico at significantly lower prices than they pay domestically, this would have a dramatic effect on the farmer and what he receives for his fruit. Even now certain California processors are buying from Mexico to supplement their supply at cheaper prices.

It should also be pointed out that Israel will soon be able to ship duty-free olives into the U.S.,. In fact they have tried, unsuccessfully, to shorten the time-frame for the elimination of tariffs on olives. Thus far we have been able to keep the schedule in place. The duty schedule expires in 1995.

STATEMENT CONTINUED _ Page 2
By Adin A. Hester

If current duties with our neighbor to the South are eliminated, we will see a tremendous increase in olive plantings. With Mexico's cheaper labor rates, lower cost of operating and less expensive land, they will expand their industry to take advantage of the U.S. Market at the expense of the California grower. With all the above advantages already in place, Mexico is already competing favorably in the U.S. Market as they sell raw product to California processors.

If Mexican olives are allowed into the U.S. free of duty, we will then see other developing countries, who produce olives, ask for the same consideration.

Therefore, let it be known that the California olive grower community is on record as requesting that olives be taken off the list of agricultural commodities being considered for tariff reductions or most-favored-nation treatment. The domestic farmers are extremely vulnerable and will suffer if Mexico is allowed free access into the U.S. with their olives.

We understand that the olive industry in California is small and probably considered insignificant in the eyes of congress. It is also easy to understand, because of our size, why we are expendable. Therefore, all we ask is that, in the wisdom of the committee, we be given careful consideration before any move is made to drop tariff arrangements between the U.S. and Mexico for olives.

Thank you.

STATEMENT OF THE CANNERY WAREHOUSEMEN, FOOD PROCESSORS, DRIVERS AND HELPERS LOCAL UNION #748

My name is Ronald Ashlock. I am the Secretary-Treasurer of Teamsters Union Local 748. We are a food processing Union located in Modesto, Calif., which is in the San Joaquin Valley. We have 14,000 members of which a large number are frozen food workers.

My members and I appreciate the opportunity for me to appear and give testimony before this commission.

It is our hope to have some influence on your decision. We hope you will listen with an open mind and give careful consideration to our plight.

With the future of thousands of American workers hanging in the balance, you have a heavy burden in making your final decision.

Rather than presenting statistics, which you probably have an overabundance of, I will approach the proposed bill for free trade from a lay person's point of view. I will attempt to convey the feelings and concerns of our members especially those working in frozen food plants, where we expect the greatest immediate impact.

We frozen food workers are trying to raise our children and support our families. To do this we need a livable wage, medical coverage, and if possible, some pension for old age security.

Fighting against the competition of already increasing imports from Mexico and Guatemala, we have experienced cuts in wages and benefits. We work long hard hours to keep our earnings up, but as competition increases our hopes dim more and more.

We have made sacrifices and given up luxuries first and necessities second. We feel any more sacrifices would mean either giving up eating or living indoors.

We feel it is unfair to ask American Farmers and processors to compete against foreign firms who enjoy such vast advantages because of economic conditions and difference in laws regulating industries in their home countries.

Some of these advantages may even be injurious to the workers' health, such as the use of pesticides which have been banned for years in America.

Without the U.S.D.A. and F.D.A. requirements, we have no way of knowing if the contents of these products pass specifications required of American processors. Therefore, we don't know if the pesticides or some other contaminantes are passed on to the consumer.

We workers fear not only the effect on us, but the long term effect on the entire economic structure of America.

The effects as we see them will be:

1. The American Processors will push for relief in order to compete with employers who pay $2.65 per day wages - not per hour, but per day.

2. An immediate loss in sales resulting in less hours worked.

3. Less acres planted due to declining sales.

We fear that the long term effect will be the eventual closing of the majority, if not all the frozen food plants in Calif. This will result in the loss of thousands of jobs just in frozen foods.

Any plants left operating will have such a low wage scale that most, if not all the employees, will qualify and be forced to go on public assistance of one kind or another just to live.

Even though the employer desires to pay the employees a liveble wage, the inability to do so means the Company and employees become a burden to the community and taxpayers, rather than an asset.

We firmly believe the Free Trade Agreement will result in American industries moving to Mexico in favor of cheaper wages, thereby eliminating thousands of jobs in America.

We American workers, are proud of our history and know we can out produce any country in the world, given equal opportunity.

We also believe every working American should enjoy a liveable wage which allows them to retain their dignity, peace of mind and be secure in the fact that their future is protected within the boundaries of this great sovereign nation.

This is the American dream our country was founded on. We believe the far reaching effects of the Free Trade Agreement can be evidenced by the problems we already face in the automobile industry, the steel companies and the electronics firms of America.

We believe the F.T.A. would result in a drop in gross national product, diminish our tax base, increase our national debt, eliminate our resources for public assistance programs and place our food supply in jeopardy, with the controls in the hands of countries with an insecure political future. Is our national security best served by doing so?

If organized labor is ever to support a Free Trade Agreement, many issues must be addressed. Some type of national labor agreement must be established - with the prime issue of economic and social parity resolved.

We do not believe foreign companies should be allowed huge fantastic profits at the expense of the American industries and us.

We want the record to clearly reflect our opposition to the Free Trade Agreement as written.

16-Tx

STATEMENT OF U.S. REP. RON COLEMAN (TX)
ON U.S.-MEXICO TRADE AND ECONOMIC RELATIONS
BEFORE THE COMMITTEE ON WAYS AND MEANS

JUNE 28, 1990

Mr. Chairman and members of the Committee, thank you for holding this hearing, the second of two, on U.S.-Mexico economic relations. The timing of these hearings has obviously been most opportune. The first one followed shortly after President Carlos Salinas de Gortari's visit to Washington and this one occurs just before our 4th of July recess, affording Members an opportunity to think about this very important topic at the time of remembrance of the birth of our nation and how other countries' investment in us two centuries ago was critical to our growth and progress.

I want to focus on two aspects of the preliminary discussions on a Free Trade Agreement between our two countries. One is what an FTA might mean for the border area in the United States. The second is how the negotiations ought to proceed. Before I get to those two topics, however, I want to stress my personal belief that President Salinas and President Bush, along with the chief designated negotiators, Ambassador Carla Hills and Commerce and Industry Minister Jaime Serra Puche, have started off on the right foot in these discussions.

Neither side has anything to gain through secrecy. While there are other things which the U.S. Trade Representative, in particular, should focus on in the next several months, such as the completion of the Uruguay Round on the GATT, the U.S. government should also be taking the discussion on an FTA to the American people in forums like this one. In fact, as World bank President Barber Conable and others have been pointing out, the successful negotiation of an agreement on trade in services among the GATT parties meeting this year in Geneva would make it much easier to achieve a bi-lateral breakthrough with Mexico in this area.

We should not underestimate the difficulties these negotiations toward a meaningful FTA will face in Mexico. Organized labor in Mexico can be expected to view any such proposal with skepticism. And as Ambassador Gustavo Petricioli said at a breakfast last week, it is clear that the opposition parties to the left of the PRI in Mexico will attempt to denounce the FTA as a breach of Mexican sovereignty in anticipation of next year's mid-term Congressional and gubernatorial elections. While the stakes in these negotiations in the U.S. will be high for various sectors of our economy, such as textile producers and service workers, they will be still higher in Mexico. As a New York Times story on the Mexican economy noted a few weeks ago, the more President Salinas does to turn around the Mexican economy, the more reforms he will have to undertake. Privatization and the effort to both recapture flight capital and to attract new foreign investment are not slight changes. They are wrenching shifts in an economy which has been statist and substantially protected since the nineteen thirties.

Mexico has two paramount economic needs, in my view. One is to provide for social progress for its people. If the Mexican government, whether under the direction of the PRI or by another political party, cannot provide a decent standard of living for its growing population, political instability will follow. This has meant, for instance, that in deciding to sell off the parastatal TELMEX, the central telecommunications monopoly, the Salinas administration agreed to dedicate the proceeds from that sale to the construction of schools and hospitals. Foreign bankers and rationalist economists may have other recommendations to make, but the reality is that for a Mexican policy maker, there is no sound alternative.

The second economic imperative in Mexico is to provide for consistent per capita growth. The decade of the eighties was an unmitigated disaster in Mexico, just as it was throughout Latin America and the developing world. With prices for primary commodities continually declining, and with interest rates in the OECD countries high, not only was there no progress, there was a substantial loss in standards of living. And public policy in Mexico in the de la Madrid administration led to even further belt tightening, particularly on the part of the middle class. Although observers may forget President de la Madrid's role in bringing about an open economy in our Southern neighbor, they should not.

By reducing the share of public sector spending as quickly and sharply as he did, President de la Madrid put Mexico through the equivalent of three Gramm-Rudman sequestrations per year for three years in a row. From 1982 through 1990, the Mexican middle class experienced a loss in purchasing power of nearly 40 percent. It is nearly miraculous that the Mexican political system did not collapse under these circumstances.

Amid this deprivation, Mexico's economy moved from a position as Latin America's most closed economy to one as arguable the region's most open. Mexico has sought to become a full participant in the world's markets and trading arrangements--membership in the GATT demonstrates that. The ratification of even a modest free trade agreement with the U.S., by far Mexico's largest trading partner, would not only improve upon those accomplishments, it would also clear a path for job creation and real per capita growth to restore the ground lost in the eighties by the year 2000.

IMPACT ALONG THE BORDER

There is no question but that a Free Trade Agreement between Mexico and the U.S. would be a good thing for the poverty-stricken areas in four Southwestern states along the U.S.-Mexico border. The United States side of the border has been helped by the maquiladora program in its approximately twenty years of existence--mostly through the development of a trade infrastructure and through the creation of modest numbers of jobs in support industries such as transportation and sub-assembly manufacturing.

The areas we are talking about rank at the very bottom in all national statistical abstracts. We lack housing; we lack potable water and sewer systems; we lack education; we lack access to health care. For many Americans along the border, there is simply a lack of skilled jobs to look forward to. The establishment of a Free Trade Agreement would bolster our manufacturing base. With the duty-free movement of sophisticated machine tools and other high tech exports from the United States into Mexico would come literally hundreds of individuals to both explain the use of and to maintain that equipment. Many of these people would choose to continue to live in the U.S., along the border, instead of following the exports all the way into the interior of Mexico.

Similarly, with the anticipated surge in goods produced with a high component of labor being imported into the United States--even leaving aside the thornier issues of agriculture--there will be an attendant location of processing and storage facilities along the border, in areas such as El Paso.

There is another trend which should not be overlooked. Professor Sidney Weintraub has noted that for years, Mexicans have been encouraged to think of the U.S. as a predatory, exploitative neighbor, even when, as has been the case in recent years, commercial relations between our two countries have been improving very rapidly. On the other hand, as Weintraub says, Americans have been led to believe, just as we used to think about the Japanese, that our neighbor does not export anything Americans would really care to purchase, with the possible exception of oil or gas. The establishment of an FTA would unquestionably change those perceptions in a hurry.

The fact is that our economies, while they are extremely different, are also complementary to one another. American producers will find themselves with a huge new market in which to sell all kinds of goods and services. And of course, there is a self-fulfilling aspect to this too--the more successful Mexican exports are, the greater the rate of domestic growth and the greater the consumner demand will be for imported goods from the U.S. The point here is that we along the U.S.-Mexico border never subscribed to the cliches about unbridgeable differences between our cultures and business practices. The mutual familiarity we have along the border should be considerably in demand with the advent of an FTA. Bi-lateral commerce, after all, is a daily practice along the border.

Perhaps as an intermediary or parallel step, I think that the Congress and agencies in the Executive branch should consider moving toward centralizing administrative operations of the government at ports of entry along the border. This idea has been in the planning stage in my own area of El Paso for a number of years, as the presence of and the demands made of the Customs Service, the INS, USDA, the DEA, the General Services Administration and at times, the State Department has become more and more complex. If an FTA comes into being, the current lack of coordination would prove ruinous. We need to begin to plan now to set up a mechanism in which one office would coordinate the inspection and control of a much larger flow of goods and services across our land border in the Southwest. I hope that this Committee in particular, in its role as the authorizer of Customs Service operations, will assist me in developing such a proposal in the weeks and months ahead.

There are a number of pieces of legislation which would provide for the expeditious processing of enabling legislation. I support the concept of managing the FTA as an agreement, and not as a treaty for at least two reasons. One is that a treaty would preclude any role for the House of Representatives, which has frankly been more sensitive to U.S.-Mexico relations than has the Senate. The second is that the ratification of treaties is a procedure which is subject to encumbrances in the form of "understandings", "riders", "escape clauses" and other maneuvers which would condition the increased flow of trade in the way that a straight up-or-down procedure would not.

At this time, however, I have not cosponsored any of these resolutions, even though I support negotiations aimed at achieving an FTA. I have withheld cosponsorship because I think both of our governments should make certain that we are soliciting the views of all of our constituencies even in this preliminary stage.

While we are on the subject of who stands to support an FTA and who may oppose it, let me say that there are undoubtedly interests which may as well be left aside while negotiation on the underlying framework moves forward. In the case of Mexico's stated intention to pursue language providing for the free movement of workers across the border, there are clearly going to be difficulties. Just as clearly, energy interests in my own state of Texas are going to face obstacles in gaining admittance to Mexican markets with petrochemical products. What should be emphasized at this point is not the fact that these things are "off the table", but that, if left aside temporarily, there may be some possibility of compromise at a later date.

In the case of worker migration, for instance, President Salinas and Ambassador Petricioli have already stated that their preference is to export products, not people. The whole point of the FTA is to create jobs in Mexico and not to export human capital. In the case of energy exports, the Mexicans have said that while they hope to continue to protect much of the state-owned PEMEX's operations in their Constitution, there may be some middle ground allowing foreign technicians and producers access to some of the "assets" associated with their domestic productive capacity.

My basic point on the course of negotiations is this. They should include everybody from the beginning and they should be realistic. If we know that agriculture or the automotive industry is going to be particularly sensitive, let us go as far forward as we can and then leave it aside for the time being while we work on another aspect in which we can make progress. We shouldn't allow one specific sector to bring the whole process to a halt.

It is in each of our country's interests to pursue an agreement. For Mexico, if it is going to grow and to provide for its people, there must be new exports and new investment. With the emergence of trading blocks on the Pacific Rim and in EC 92, an FTA is the one means of assuring access to new export markets. For us, aside from the virtues of having a more prosperous and stabile neighbor to our south, there will be far greater opportunities to sell to our own hemispheric market which has remained largely relatively untapped.

I appreciate the opportunity you have given me to present my views and look forward to working with the Committee on this very important initiative in the months and years ahead.

STATEMENT OF THE CORDAGE INSTITUTE

These comments are submitted on behalf of the Cordage Institute (CI), an association dedicated to quality products crafted with pride, in response to Press Release #28 of the Subcommittee on Trade of the Committee on Ways and Means of the U.S. House of Representatives. The manufacturers of cordage (rope, twine, cable, and fishnetting) nationwide in the United States and in Canada, who together with their suppliers comprise the membership of CI, feel strongly that the idea of a free trade area with Mexico should be approached very carefully to ensure that there is no resultant, avoidable injury to economically and efficiently run domestic businesses. Based upon 70 years of representing this industry, CI wishes to bring to the attention of the Subcommittee the following several points.

While CI agrees with the joint statement by the Presidents of Mexico and the United States, issued following their June 13, 1990 meeting, that the "...two countries must look to the future and devise ways to meet the challenges of the 1990s and the next century, establishing a climate of greater stability and confidence for trade and investment." it feels very strongly that any consideration of a free trade area agreement must be approached with extreme caution. When polled by CI, individual members of the association repeatedly raised certain concerns.

Current imports of cordage from Mexico enter the United States at very low prices. While neither the natural fiber cordage items nor the fibers from which they are produced are manufactured in the United States in large quantities, the opposite is true of the manmade fibers and the resins from which they are produced. Indeed sophisticated advanced fiber technology is one area in which this country is a world leader, especially as it is applied to the production of cordage and cordage products.

A review of recent U.S. import statistics shows that prices are already moving downward. For imports of (mainly) nylon braided rope (HTSUS 5607.50.40) Mexico now accounts for well over 10% of U.S. imports; in 1989 when Mexico accounted for only a small proportion of shipments, the prices were above average, now that shipments have soared (in less than a year) prices have fallen sharply to a level 13 % below the average for all imports of these products. In the "basket" category of other types of manmade fiber cordage (HTSUS 5609.00.30) Mexico is a consistently low-priced shipper: In 1989 and 1990 shipments were approximately 25 percent below the average for imports from all countries.

In the area of fishnetting the statistics are even more threatening. For salmon gill netting of manmade fibers (HTSUS 5608.19.10.10) Mexico's shipments were 67% below the average values for 1989 (many of these shipments were produced with the assistance of the Japanese against whom there was an outstanding antidumping duty order); in 1990 the price has dipped to 74% below the average. For shipments of other fishnetting of manmade textile materials (HTSUS 5608.19.10.20) Mexico had shipments that were priced 17% below in 1989 and 16% below in 1990 the average for all countries. In many categories of cordage products prices for 1990 are substantially below those for 1989. CI is anxious that the downward price trend not continue; any expression of interest in a free trade area should be conditioned upon a strong agreement that imports from Mexico will be fairly traded. Many of these cordage products clearly are not.

The Honorable Ronald D. Coleman of Texas reminded all of us in his extended remarks concerning the concept of free trade with Mexico, entered in the June 14, 1990 Congressional Record (see page E1995), "It is also commendable that Presidents Bush and Salinas have taken the trouble to go public with even these preliminary discussions, ... By adopting this approach, all constituencies in both nations can present their concerns out in the open.... those with a major stake in the outcome of the talks, such as...the textile industry... will have the opportunity to make their voices heard." This is what CI, representing a strategically important sector of the textile industry, is doing and will continue to do so long as the opportunity for dialogue on this issue exists.

Recently the United States entered into a long-awaited free trade area agreement with Canada. Negotiations on this agreement and its similar predecessors lasted 100 years. If we have learned from this experience with a country far more similar in economic development to that of the United States than Mexico is, we have learned that there is a vital process which must be followed, each and every factor possible must be considered and negotiated. In essence, we are still completing the U.S.-Canadian Agreement. There are several working groups which have not completed their tasks, especially in the areas of unfair trade practices. We should wait until the agreement between two more similarly economically situated countries is completed before we begin another with one less similarly economically situated. We must appraise our current obligations, those to Canada, before we consider taking on additional obligations under another treaty and we must ensure that we do nothing to prejudice the value of those obligations which we have already undertaken with Canada. Ontario's Industry and Trade Minister, Monte Kwinter, was quoted in the Toronto Globe and Mail of June 14, 1990 (see Page B 1) as saying, "I'm very concerned that the U.S., which entered into an agreement with Canada, is going to in some way dilute that agreement by being able to end run through Mexico, and do some of the things that they traditionally do in Canada." We must take care not to alienate those with whom we currently have strong economic alliances in the name of forging other economic alliances.

Statistics Canada has reported the loss of 165,000 jobs over the past year, mostly in the last few months and in the manufacturing sector. We cannot let a similar fate befall U.S. employers and their workers by making an agreement which sends jobs out of the United States to a country where the wage scale is inarguably lower. Letters we have received from our members echo this concern and urge the Members of the Subcommittee to put themselves in the shoes of those who have worked for businesses for years and will suddenly have no jobs if such an agreement is worked out with Mexico.

According to statistics presented by ATMI (the American Textile Manufacturers Institute), during 1989 alone major plant closings and layoffs affected more that 1000 textile jobs. Massive low cost import competition is the most often-cited cause for these statistics. CI supports ATMI, President Donald R. Hughes in stating on June 11, 1990 that the first concern of the U.S. Government should be preventing erosion of U.S. markets and job losses, while lessening our current trade deficit.

Respectfully submitted,

Ann Ottoson King

Ann Ottoson King
Counsel to
Cordage Institute

STATEMENT OF SENATOR PETE V. DOMENICI
U.S.-MEXICO FREE TRADE AGREEMENT
TESTIMONY BEFORE THE WAYS AND MEANS
SUBCOMMITTEE ON TRADE
JUNE 14, 1990

I want to thank the Subcommittee on Trade for holding these hearings on the possibilities of a U.S. Mexico Free Trade Agreement. I hope that this hearing is a sign that the subcommittee is interested in passing the legislation necessary to put a Free Trade Agreement with Mexico on the fast track.

Sidney Weintraub, a prominent scholar on U.S.-Mexico relations has called the U.S. Mexico relationship a marriage of convenience--that for better or worse, in good times and in bad the policies of the U.S. and Mexico affect the other.

He is correct about the interrelationship. However, I believe that because of geography, it was a prearranged marriage. In view of the trade and investment liberalization measures taking place in Mexico the future of the relationship could potentially be a marriage made in heaven.

As a citizen of the United States, I am convinced one of our greatest goals in the 1990s must be to strengthen our ties throughout this hemisphere, particularly our ties with the people of Mexico.

Everyone in this room, as free men and women, feels a great exhileration over the recent events in Europe: The collapse of the Berlin Wall, the coming of democracy to Poland and Hungary and other nations that once were huddled behind the Iron Curtain.

Yet so many important changes are occurring just across the border in Mexico --- economic changes that in many ways dwarf those taking place in Eastern Europe.

Mexico's transformation offers the three great nations of North America the opportunity to work together in a unified way for the first time, moving toward more open and freer trade, producing new growth and wealth for all.

Why is this important for the United States? The reason is that the United States needs to build stronger trade relations with our friends in Mexico and Central America.

I must tell you that I was most encouraged by the views expressed by Ambassador Petricioli in a recent discussion we had. It is his view that prosperity in the United States, especially in the border states, brings prosperity to Mexico, while prosperity in Mexico generates prosperity to the United States.

I certainly agree.

But I want to talk with you about the vision of President Salinas, a leader whom I hold in the highest regard.

To move Mexico back onto the prosperity track, its president has has already overcome triple-digit inflation, centralized planning, state ownership of many industries, inefficient subsidies, capital flight, and a crippling foreign debt. In fact, Mexico was the first nation to reach a tentative debt agreement under the Brady Plan.

Twenty-five areas of the Mexican economy have been deregulated, or are under review for deregulation. The maximum tariff is down to 20 percent from 100 percent, exceeding Mexico's commitment to GATT.

"Disincorporation" is working. In 1983, Mexico had 1,155 state-owned enterprises, making up close to 20 percent of the Mexican economy. Three months ago, all but 254 of those enterprises were divested or authorized for divestiture.

I think it is fair to say that President Salinas' leadership has, to a great degree, overcome what might be called a phobia against foreign investments. Foreign investment in Mexico has doubled over the past five years. He has relaxed rules that had barred majority foreign ownership. These changes have been by executive order. To add stability and permanence I would hope that the necessary Mexican laws could be changed to conform with the executive orders.

Our challenge really seems to boil down to overcoming fears --- fears on both sides of the border. I find it so ironic that Mexicans fear they cannot compete with rich and technologically sophisticated American enterprises, while Americans fear they cannot compete with the wages available in Mexico.

Both are mistaken. The Maquiladora program proves that.

In less than 25 years, 443,000 Mexican jobs have been created at Maquiladora plants, plus about that many new American jobs supplying those plants. In Ciudad Juarez alone, the number of those employed in Maquiladora plants rose from 2,300 to 135,000 in 20 years.

Too often we forget that Mexico is today America's third largest trading partner, exchanging with us about $55 billion in goods each year.

But the issues go beyond the economic ones. We must do all we can, as partners, to stimulate Mexico's political leadership in this hemisphere.

A robust Mexico could assume a stronger role in our hemisphere --- becoming the economic example for the nations of Central and South America.

We need to recognize the relationship that exists between the U.S. and Mexico. As one country's economy grows, it pulls along the other. As either contracts, the other is also slowed down. The goal should be mutual prosperity for Mexico and the U.S. with each country's economic growth supporting that of the other.

Since we have a free trade agreement with Canada, it sets the stage for a free trade agreement with Mexico.

As a result of the U.S. Canada Free Trade Agreement the tariffs, subsidies and non-tariff barriers will be substantially eliminated between the U.S. and Canada.

To the extent that the same type of goods are being exported into the U.S. market from Canada and Mexico, the Canadian goods have the advantage because of the preferential treatment provided for under the Canadian Free Trade Agreement.

Since many of Mexico's exports are the same as Canada's--e.g. oil, gas, petrochemicals, pharmaceuticals, certain minerals, steel and textiles--the Canadian Free Trade Agreement actually places Mexico at a disadvantage.

The very existence of the Canadian Free Trade Agreement makes it important for negotiations to begin on a similar agreement with Mexico. Eighty percent of Mexico's exports go to the U.S. so access to the U.S. market is important, and equal access to that which Canada enjoys is imperative.

That is why I recently joined in introducing S. 2428, a bill to "authorize negotiations of a Mexico-United States Free Trade Agreement," legislation instructing the President of the United States to initiate talks toward a free trade agreement with Mexico.

The bill does three things: It authorizes the President to go forward with the negotiations. It provides for consultations with the Congress as the negotiations proceed and it provides "fast track" consideration by the Congress of the agreement if one is reached.

The possibility of a Free Trade Agreement would not be possible but for the new trade and investment liberalization policies in Mexico. In response to these liberalization policies the U.S. should recognize the growing integration of the two economies and abandon the "we/they" mentality. We should seek to develop the maximum advantage from the integration rather than fighting it. A Free Trade Agreement is one way to achieve that objective.

We should recognize that each country has a natural market in the other. We should encourage production sharing and build upon the existing maquiladora economic base.

The direction Mexico is moving will tie its economy to what is taking place in the world economy more than at any time in the past fifty years. In view of the natural trade and industrial links with the United States, the current policy will reinforce the economic marriage that already exists between the two countries.

I recognize that negotiating a Free Trade Agreement is difficult and this one may be the most difficult. I recognize that many issues are sensitive and that several of the main sectors that Mexico is interested in are "import sensitive" on our side--textiles for example. I am aware that the President of Mexico has expressed an interest in unrestricted labor flows which would be an extremely controversial possibility.

There were many very difficult issues involved with the Free Trade Agreements with Canada and Israel. Nonetheless, I believe that much could be gained by starting the talks now so long as both sides recognize that there are significant challenges but potential.

I do not think it is necessary to wait until the multilateral round of trade negotiations are completed. In fact, I believe waiting would be a significant mistake.

Thank you, Mr. Chairman.

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

In the Matter of Hearings on :
:
UNITED STATES - MEXICO ECONOMIC RELATIONS :

STATEMENT OF OPPOSITION TO PROPOSED INCLUSION OF CITRUS AND CITRUS PRODUCTS IN UNITED STATES - MEXICO FREE TRADE AGREEMENT

By
FLORIDA CITRUS MUTUAL

This statement presents the views of Florida Citrus Mutual (FCM) on proposals to enter into a U.S.-Mexico Free Trade Agreement which would modify in any way U.S. tariff treatment of citrus juices, fruit and other citrus products imported from Mexico. FCM is a voluntary cooperative association of the growers of citrus fruit for fresh consumption and for processing. Its members account for from 80 to 90 percent of the United States growers of citrus fruit for processing into citrus juices.

The views set forth here are also supported by a majority of citrus growers and processors outside the state of Florida — including growers, packers, and processors. This statement represents the views of Florida Citrus Mutual, California Citrus Mutual, the Citrus Grower Associates, the Florida Citrus Packers, the Florida Farm Bureau Federation, the Gulf Citrus Growers Association, the Indian River Citrus League, and the State of Florida Department of Agriculture and Consumer Services.

There are about 14,000 citrus growers in the State of Florida and about 22,000 growers across the United States. This statement is made on behalf of virtually all U.S. growers of oranges for processing into frozen concentrated orange juice (FCOJ) as well as the industry that grows and processes other fresh citrus and citrus products.

Approximately 250,000 people are directly employed in the citrus industry across the United States. In Florida alone, 70,000 persons are directly employed in production. About 74,000 persons are indirectly employed so that the livelihood of some 144,000 persons in Florida could be vitally affected by the various trade proposals that involve citrus and citrus products, including a U.S.-Mexico free trade agreement.

The global trading environment for citrus and citrus products is characterized by intense competition between countries with highly developed citrus producing and processing capacity. Mexico is a substantial competitor with U.S. and other growers in world markets, but there is virtually no export opportunity for U.S. producers in Mexico. A proposed free trade agreement covering citrus will bestow unilateral benefits on Mexican growers/processors by encouraging further penetration of the U.S. market, without providing reciprocal procompetitive opportunities in the Mexican market for U.S. firms. Florida Citrus Mutual, therefore, opposes the grant of unilateral concessions on citrus and citrus products to Mexico through a free trade agreement.

It is critically important in these proceedings to recognize that at a time of profound increases in foreign citrus production and trade, U.S. trade policy respecting citrus has become randomly episodic, making long-term planning in the industry difficult if not impossible. Imports from Israel will soon enter the United States free of duty pursuant to the recent trade agreement with that country. In addition to pertinent negotiations in the Uruguay Round of the GATT and the proposed agreement with Mexico, a special free-trade arrangement for all of the Central and South American countries is reportedly under consideration. The President has recently declined to include citrus in the proposed duty-free arrangement with Bolivia, Colombia, Ecuador, and Peru, because of the import sensitivity of citrus and the possibility of transshipment, and other factors related to GSP eligibility.

The facility with which the plethora of proposals has been advanced indicates both a lack of consistency and a failure to appreciate recent profound changes in the global environment in which citrus and citrus products currently are produced and traded -- and the critical impact that any of the proposed initiatives will undoubtedly have for this important agricultural sector.

Accordingly, Florida Citrus Mutual, and those in support of our position, are strongly opposed to the inclusion of fresh citrus and processed citrus products in any of the initiatives in question. Because of growing foreign export surpluses in these products, and long-term increases in imports, it is highly probable, as indicated below, that duty reductions would virtually eliminate this important U.S. agricultural sector.

The sheer number of trade policy initiatives currently under active consideration is daunting to an industry doing its best to survive in a tumultuously competitive foreign trade environment. Because of the pervasive growth in foreign output, and foreign trade interrelationships, FCM believes it to be imperative to recognize that any of the actions called for in the various pending initiatives will have a devastating effect on this domestic sector. Looking at the various proposals individually, without considering the overall situation, will be disastrous.

I. INCREASING FOREIGN PRODUCTION IS RESPONSIBLE FOR GROWING FOREIGN EXPORT SURPLUSES IN CITRUS

In the past decade there have been vast increases in the global production of citrus. These increases are disproportionately concentrated in countries where the domestic demand is currently and prospectively limited; large surpluses, particularly of oranges, are growing far beyond local demand.

With increasing frequency, this surplus fruit is being converted into processed products (mostly juice) which is, in turn, aggressively exported. Growing competition in export markets world-wide is causing trade dislocation. These citrus producing countries are transhipping large volumes of citrus products through non-citrus countries in an effort to obtain access to high volume markets.

In just the last five crop years, (from 1982/83 through 1988/89), total production of oranges outside the United States rose 26%. Production in the United States declined 7%. This decline is directly caused by the increasing impact of imported orange juice and the loss of export markets.

Ever increasing proportions of foreign citrus crops are being converted to orange juice, because of the marketability of juice and its ease of transportation as an export commodity. Foreign juice processing has increased nearly 50% since the 1982/83 season, while processing in the United States declined by about 2% over the same period.[1]

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[1] Data on foreign operations are understated because of the absence of information for some countries.

The U.S. citrus industry is highly efficient. In recent years this industry has attained dramatic improvement in citrus yields. The recorded decline in U.S. production, in the face of increased crop yields is directly related to the relative increase in foreign surpluses (which has been intentionally stimulated by foreign governments), the loss of U.S. export markets, and the long term displacement in U.S. output occasioned by increasing imports. Under these circumstances, duty elimination, particularly for one of the world's major producing countries such as Mexico, would devastate our industry.

Changes in the relative positions of the United States and foreign countries in the production and processing of oranges over the past five crop years is summarized in the tabulation below. Similar developments are occurring in other citrus crops.

Oranges: Changes in Production of Fruit
and Fruit Processing in the
United States and Foreign Countries,
from 1982/83 Through 1988/89

(1,000 Metric Tons)

	1982/83	1988/89
Orange Production:		
United States:	-636	- 7%
Foreign:	+5,041	+26%
Fruit Processing:		
United States	-156	- 2%
Foreign	+3,644	+49%

Source: Compiled by the Citrus Administration Committee, Lakeland, Florida, from various sources.

All informed observers of the citrus industry expect these trends to continue. A recent study of the U.N. Food and Agriculture Organization predicts, for example, that production of fresh oranges outside the United States will increase more than 40% over the next ten years. Mexico's output is expected to increase 77 percent. Since these production projections take full account of available data on new plantings, tree losses, and governmental programs for citrus, they are deemed to be highly realistic.

According to FAO, the surplus of foreign oranges over home market demand will more than double within ten years, leaving excessive quantities for conversion into juice. This excess foreign production will make nearly five million metric tons of fruit available for conversion to juice which is principally destined for export.

The United States does not compete on a level playing field in this area. Much of this foreign surplus production results from intentional governmental efforts to promote both the production of oranges and the export of juice. These programs have a tremendous impact upon the condition of the U.S. citrus industry. This foreign governmental intervention is causing shifts in existing trade patterns, transshipment and diversions to the U.S. market. The magnitude of these developments should be a central consideration in any prospective trade policy initiative, and the U.S. should not adopt a program granting duty-free treatment to one of the world's largest producers, especially in light of its sharply rising output. The production chain that has been stimulated by such measures is fully in effect; the long-term consequences will be felt for years to come. Foreign exporters can be realistically expected to expand and strengthen their positions by continuing to displace U.S. production. Once a citrus tree has been planted, the grower can expect 15 to 20 years of commercial fruit production. New measures constantly evolve that help the export industries involved.

II. DEVELOPMENTS IN CENTRAL AND SOUTH AMERICA

It is critically important to recognize the Western Hemisphere context in which proposed duty-free treatment of citrus from Mexico would be placed. Dislocations within the U.S. industry have already occurred as a result of losses of export markets, direct imports, transshipment and unfair pricing practices. These critical circumstances require that trade policy initiatives affecting citrus take account of the total environment of the region under consideration. None of the growing areas of the United States are in a position to sustain a profitable operation in light of the import onslaught which will ensue if any of the various trade policy proposals mentioned above are adopted.

A. MEXICO

Oranges account for nearly 90% of Mexico's citrus harvest. The Mexican citrus industry has expanded rapidly during the past ten years. In late 1988, Hurricane Gilbert caused some fruit loss, and output in Nuevo Leon suffered the effects of an early frost in December of 1983 (FAS Dispatch, Mexico City, Number MX 8142, 11/1/88). These temporary setbacks are not indicative of long term trends in the Mexican citrus industry. From 1985 though 1989 alone, U.S. imports of orange juice from Mexico rose five-fold, or from five to 45 million gallons.

According to USDA's Foreign Agricultural Service, orange production in Mexico has been growing at an enormous rate. Orange output during the 1988/89 marketing year will probably set a new crop record. The service indicates a "17 percent expansion in [the] harvested area [in Mexico]" in the recent past. More than 40% of the total planted acreage has not yet reached bearing age, so the outlook for increased production in that country is exceptional ("Horticultural Products Review", U.S. Department of Agriculture, January, 1989, at 3).

Mexican producers have access to credit facilities on favorable terms ("National and Regional Citrus Policies", FAO Committee on Commodity Problems, Montevideo, CI 89/4, September, 1989, at 8), and the National Institute for Agriculture Research (INIA) has developed a program for yield and quality improvement. CONAFRUT, the public organization dealing with production and marketing of major fruits, also furnishes technical assistance for the improvement of cultivation.

Existing productive capacity in the Mexican citrus industry is most accurately characterized as being substantial, underutilized and rapidly increasing. This processing capacity has resulted from the expansionist designs latent in the Mexican citrus industry's export activities; tendencies which will be fed by that country's growing capacity for fruit production. Some old plants have been rehabilitated and juice processors made large investments in new orange juice plants during the 1987-88 season so that as fruit output grows, "larger amounts of oranges will be devoted to juice production." (FAS Dispatch, Mexico City, Number Mx 8142, 11/1/88, at 8).

According to the U.S. Foreign Agricultural Service, Mexico reportedly has 17 processing plants with the capacity to process over 840,000 metric tons of fresh oranges per season

(Unclassified FAS Dispatch, Mexico City, Number Mx 8142, 11/1/88). These facilities have a water evaporating capacity of nearly 387,000 pounds per hour. The expansion in fruit production and processing operations in Mexico has been disproportionately stimulated by exports. During 1988 and 1989, about 85% of the juice output was exported.

Information from trade sources indicates that underutilization of juicing capacity in Mexico has been due to the build-up of capacity in expectation of future exports. As orange output increases, additional quantities of fruit can be utilized for processing, particularly in anticipation of increased sales in the United States. Duty-free treatment for imports from Mexico will hasten this process, while encouraging diversions of shipments from other countries through Mexico. Such trade will adversely affect both fresh and processed market prices in the United States. The impact on Mexico's export trade and on U.S. producers will be far greater than that suggested by a static evaluation of relevant trade data.

Mexico, therefore, is not a developing citrus producer. It is the third largest producer in the world with substantial capacity to export both fresh and processed citrus to the United States, and unlimited growth potential. There is virtually no export opportunity for U.S. producers in Mexico, because of extremely limited local demand. A U.S.-Mexico FTA in citrus would be a U.S. unilateral give-away program (tantamount to GSP treatment) with no legitimate developmental goal for Mexico.

Mexico already provides about 12% of the total U.S. imports of orange juice, and about 14% of the imports of frozen juice. To a large extent, trade has been price-based. The weighted average foreign unit value of the orange juice receipts from Mexico in 1988/1989 was almost 25% less than the fob plant value for the Florida product during the 1988/89 crop year. Given the rising level of tree plantings in Mexico, and the large excess in processing capacity, it is obvious that a duty-free arrangement with that country for citrus would greatly accelerate the already rapidly growing imports.

Any assessment of the effect of a duty-free arrangement with Mexico must also take account of the impact of such a development on Brazil, the world's largest and dominant supplier. Brazil will respond effectively to price changes induced by such an arrangement so that the effect will be far greater than might be implied by looking at Mexico alone.

B. BRAZILIAN OPERATIONS

Massive governmental subsidies and assistance to Brazil's orange industry during the 1960's and early 1970's, have made that country the world's largest producer of oranges and orange juice during for the past two decades. Most of Brazil's output is processed into FCOJ (about 95%), and more than 97% of that is exported.

Brazil has a long history of complex assistance programs for its industries. While many have been phased out, the export growth thus stimulated continues to have substantial consequences for world markets and prices. Indeed, there is an existing suspension agreement with Brazil relating to its subsidy practices in which Brazilian producers benefit from artificially low credit interest rates.

Brazilian producers are reportedly seeking an exemption from value added taxes for juice exports. Even if that tax is continued, however, there is an important offset as it is deducted from profits in calculating the final producer price.

Brazil shifts its export targets to take advantage of market opportunities. Israel, for example, has at times exported more juice than it produces, and it is believed that it utilizes favorably priced Brazilian juice for blending purposes. Brazil is also engaged in a venture in Italy for blending in that country. U.S. imports from Canada may involve Brazilian juice. In the longer term these practices obviously have the effect of placing domestic producers of fresh fruit at a competitive disadvantage. In the case of direct juice exports, Brazilian efforts reduce both growing and processing opportunities for U.S. companies. In the United States, increasing quantities of Brazilian juice have been marketed directly to reconstituters or repackers, thus by-passing U.S. growing and blending operations.

Brazilian exporters have twice been found to have caused material injury to the U.S. industry by dumping and subsidizing exports to the United States. Its export prices are subject to extreme fluctuations that tend to destabilize the market while assuring Brazilian market position.

Minimum export prices are established through agreement between industry (dominated by three processors) and the Government in a system that is believed to have a substantial impact on world prices. Under this arrangement, the minimum Brazilian export price is adjusted on the basis of a running 20-day average of the New York orange juice futures market — which Brazil dominates because of the magnitude of its export operations, and its predominance in world trade.

The pricing system can scarcely be described as a "free-market" operation, and it causes massive price swings that are administered to capitalize on crop shortages or heavy increases in supplies. From the end of May, 1989 to December 5, 1989, the minimum price decreased 43%. Then, after the Florida freeze in December of 1989, the minimum export price was ratcheted up $10 per day, per metric ton, until January 16, 1990, when it reflected the absolute value of New York orange juice futures. The price continued to increase thereafter to a level of $2,045 per metric ton on April 11, 1990, an increase of 46 percent over the prices early in December 1989.

Precipitous price changes of this magnitude are not demand driven but are the result of machinations on the supply side — designed to maximize revenues and market position. Such variability in the pricing structure cannot be decoupled from the resulting instabilities in the prices sought by other foreign vendors in the U.S. market.

Non-Brazilian producers obviously must follow suit on the price downside; the competitive impact on U.S. producers is obvious. In good crop years, foreign producers drop prices precipitously so that it is difficult for U.S. producers to recover from years of low crops or yields. In years of short crops, foreign prices are ratcheted up to levels that discourage consumption, while at the same time, there is further import penetration. The products are highly fungible. Downward price changes by one foreign supplier are met promptly by another. Careful account of such influences should be taken in evaluating the various trade policy initiatives now being considered.

The Brazilian citrus industry is poised for massive long-term growth in both production and exports. This growth will lead to increased indirect shipments through third countries and through foreign blending operations. As a result of fiscal incentives that have encouraged the development of high and growing export levels, Brazil has made large investments in facilities for processing and transporting excessive quantities of orange juice. Storage and blending facilities have also been established abroad.

The state of Sao Paulo alone had an annual production capacity of about 275 million boxes in 1989. ("National and Regional Citrus Policies", FAO Committee on Commodity Problems, Montevideo, CI 89/4, September, 1989, at 3). That processing industry is highly concentrated and three companies directly control over 75% of the processing capacity; indirectly they control most of the remaining 25% through joint ownership arrangements. While the industry continues to be concentrated in Sao Paulo, it is expanding significantly, and rapidly, in other states as well. A processing facility in the state of Goias is expected to be operational in 1991. (Ibid, at 3).

Brazil has nearly three times as many bearing trees as the United States, but is continuing to expand. One of the prominent firms (Citrosuco Paulista SA) is providing tree seedlings for an operation that is expected to be serviced by some 3.5 million trees by 1991. The state of Prana has a goal for 7.5 million trees. German and Japanese investors are reportedly investigating the possibility of large new acreage and processing facilities. Another group is planning a substantial, 8 million gallon concentrate operation outside of Sao Paulo (the principal producing state). Still another large industrial group (Votoratim) is building a new processing plant with a capacity for 12 million boxes. Massive output increases obviously are pending both in Brazil and Mexico.

Brazil operates its own tanker fleet for the transportation of concentrate. Storage and reconstituting facilities have been established in the United States and Western Europe.[2] These facilities enable Brazil to quickly shift juice between markets and will facilitate the exploitation of any competitive advantage offered by duty-cuts, over-all or through the use of transshipment through other countries or regions.

There can be no doubt that Brazil is poised for a massive assault on world markets, both directly and indirectly through blending or third-country shipments. In the United States, increases in the importation of fruit juices from Canada, and other non-citrus countries, are indicative of transshipment and third country activities. In 1989, the United States received juice imports, in significant volume, from five countries that do not produce oranges. Simultaneously, the growing pressure of increased exports from other citrus producing countries has led to price depression and price suppression - and the diversion of shipments to the most attractive market in terms of price and volume. Duty-cuts by the United States will worsen the global citrus situation by encouraging competitive price cutting and shipment diversion or blending.

III. THE IMPACT OF THE U.S.-MEXICO FTA PROPOSALS

Short-term annual variations in output and shipments can be misleading. As with any agricultural product, there are substantial fluctuations from year to year because of weather, disease, and other conditions. Due to existing unfair competition from Brazil, and in contrast to trends abroad, U.S. production has been down significantly. This in turn has caused a significant decline in acreage devoted to orange production in each of the major U.S. growing areas. (Table). To a very large extent, this is attributable to the long-term increase in juice imports, which, during 1988/89 were double the volume that entered during 1980/81. Imports from Mexico increased five-fold. Imports of fresh fruit have also increased sharply. Tariff reduction or elimination will provide an advantage to Mexico and "invite" further competition. The U.S. will be the target of expanded exports and price competition.

2/ There is also an indicated interest in the exportation of natural juice.

Extraordinary growth in foreign output, and increasing foreign trade in citrus, has already led to profound deterioration in the U.S. citrus industry. During the decade of the 1980's, while imports of fresh and processed products nearly doubled, exports, particularly juice, fell. That trend will worsen if current tariff levels for citrus and citrus products are not maintained.

The impact of duty reductions or duty elimination on U.S. industry will be expressed first in terms of price, then profitability, and finally in the displacement of U.S. output, employment, investment, and revenues and taxes. The reduction or elimination of current duty-rates will affect growers in two ways. Increased imports of fresh fruit will reduce or suppress fresh fruit prices. Increased imports of juice will reduce juice prices and also reduce the amount domestic processors are willing or able to pay growers for fruit used for processing.

At the wholesale level — the first level of direct competition between the domestic and imported product — there is a high degree of substitutability and a price spread of but a few cents per pound is sufficient to cause a diversion from domestic to foreign sources. As prices decline for juice from Mexico, the competitive price of the even larger supply from Brazil will decline by a like magnitude and reach the lowest common denominator for this fungible product. The impact of low-priced imports of concentrate and not-concentrated juice will severely impact U.S. growers in all citrus producing areas of the United States. Those growers will also be adversely affected by the impact of lower priced imports of fresh fruit from Mexico.

This threat is unambiguous. Citrus is an industry at risk. An important sector of U.S. agriculture will be virtually eliminated if import duties are reduced or abolished. An unholy combination of factors at play in this sector insure, beyond reasonable doubt, that the proposed trade policy initiatives will achieve two unacceptable goals. First, increased imports will be stimulated in the next decade. Second, the domestic citrus industry will be sacrificed. There will be no compensating increase in exports, which already are declining. For the U.S. citrus industry the proposals are a one-way road - downhill.

The U.S. stakes are enormous: Florida citrus provides a livelihood to 144,000 persons, for whom there are few meaningful employment alternatives. The on-tree value of citrus in the 1988-89 season — a good crop year — was $1.4 billion. Citrus accounted for almost 30% of the $5.8 billion in farm gate receipts in Florida in 1988. In the 1988-89 season, the industry is estimated to have generated receipts at the wholesale level in excess of $3.5 billion. At the grove, the total capital investment in Florida is conservatively estimated about $7 billion — a figure that does not even include the large value of assets which are solely devoted to juice extraction and evaporation. These figures for Florida alone are magnified many times if the impact of the proposals upon the growers in Texas, Arizona, and California are included. Because of Mexico's proximity, these industries will be ravaged. The effects of prospective losses on the economies, and in the tax bases, of the communities and states in question will be severe and cannot be reasonably or logically discounted.

CONCLUSION

For the foregoing reasons Florida Citrus Mutual submits that a general free trade agreement with Mexico will cause severe adverse consequences, and urges the Congress to exclude citrus juices, including frozen concentrates, and all fresh and processed citrus products from the scope of any agreement with Mexico.

Respectfully submitted,

Bobby F. McKown

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ORANGES: U.S. BEARING ACREAGE
FLORIDA, TEXAS, ARIZONA, AND CALIFORNIA

SEASON	FLORIDA	TEXAS	ARIZONA	CALIF.	TOTAL
	-- IN THOUSANDS OF ACRES--				
1980-81	591.1	25.3	13.2	182.9	812.5
1981-82	580.8	23.7	13.6	179.7	797.8
1982-83	555.7	24.0	12.6	177.3	769.6
1983-84	487.5	24.3	12.6	177.6	702.0
1984-85	432.3	11.4	10.9	175.2	629.8
1985-86	377.6	8.3	11.0	174.7	571.6
1986-87	384.8	8.3	10.9	172.9	576.9
1987-88	389.5	11.9	10.6	172.6	584.6
1988-89	398.0	12.7	10.4	171.8	592.9

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SEASON	FLORIDA	TEXAS	ARIZONA	CALIF.	TOTAL
1980-81	100	100	100	100	100
1981-82	98	94	103	98	98
1982-83	94	95	95	97	95
1983-84	82	96	95	97	86
1984-85	73	45	83	96	78
1985-86	64	33	83	96	70
1986-87	65	33	83	95	71
1987-88	66	47	80	94	72
1988-89	67	50	79	94	73

Source: Annual Statistical Report 1988/89 Season, Forida Citrus Mutual. p. 18.

STATEMENT OF WAYNE HAWKINS
THE FLORIDA TOMATO EXCHANGE

The Florida Tomato Exchange ("FTE") is a non-profit cooperative agricultural association whose members ship more than 50% of the tomatoes produced for fresh market in the U.S. each year.

FTE believes this hearing is important to provide a more complete understanding of the status of United States economic relations with Mexico and to explore the economic impact of further liberalization on U.S. industries, particularly agriculture. As you will note from the following, FTE strongly opposes further liberalization, particularly in agriculture, because we view it as a step fatal to the domestic fresh tomato industry.

To understand FTE's opposition to liberalization, it is first necessary to understand the costs and risks involved in fresh vegetable farming.

The vegetable farmer divides his costs into two categories. The first category includes his production costs: tilling, planting, fertilizing, spraying and other activities necessary to produce a crop for harvest. The second category includes his harvesting and marketing costs: those costs incurred in picking, packing, hauling and marketing the product.

Production costs or sunk costs are so named because they have been irretrievably committed and placed at risk before the farmer knows what the market price will be. When the crop reaches maturity, the farmer has only a short time period within which to judge the market and to decide whether or not to harvest his crop. If the market price is below his harvesting and marketing costs, economic sense precludes his harvesting the crop; instead, the crop will be left to rot in the field in order to reduce the farmer's losses. If the market price is above the harvesting and marketing costs but below the total of production, harvesting and marketing costs, the farmer will harvest and market his crop, hoping to recover some of his costs and reduce his losses. It is only when the market price is above total production, harvesting and marketing costs that the farmer starts realizing a return on his investment.

The marketability of the fresh vegetable crop is highly dependent on market price. Unlike other products, fresh vegetables may not be held or warehoused to reduce supply for an increase in demand and a subsequent increase in price. Not only are the vegetables perishable, when vegetables are left to rot, a significant portion of money in production costs has been lost to the producer. They are irretrievable. If supply from Mexico becomes tariff-free, U.S. farmers will be placed in greater jeopardy of losing profit on their crop and their production costs.

Florida is the major domestic source of fresh tomatoes for the U.S. market producing about 50% of the total U.S. production. California is second with about 25% of the total production, but they are a summer producer and do not really compete with Florida. Florida's output has trended steadily upward due mainly to the adoption of new technology and better tasting varieties. The most threatening problem the Florida tomato industry faces is increasing and unfair competition from abroad, especially from Mexico. The Mexican government's support (direct and indirect) of Mexican tomato producers and its history of deliberately preventing U.S. exports from entering its market is a classic example of an unfair trade situation.

In the late 1970s a pattern was revealed in which a substantial volume of sales of Mexican winter vegetables were made at less-than-fair market value. An analysis of pricing trends during the most recent years shows that the prices of Mexican fresh winter vegetables frequently fell far below their cost of production. Historically, they quote prices $2.00 or more below the Florida F.O.B. prices.

The Mexican industry was able to recover its losses in the 70's from sales below cost of production through sales at excessively high prices at other times when Florida is not a competitive factor. Decreasing market shares throughout the country, decreasing profitability of the industry as a whole, rising instances of operations conducted at a loss, and in some cases entire operations going out of business were the result of these unfair Mexican trade practices.

In 1982, the United States Trade Representative established an interagency group on Mexican winter vegetables to study the above-noted problem. As a direct result of the group's efforts, then-Secretary of State George Schultz raised with then-Mexican Foreign Secretary Sepulveda the issue of Mexican winter vegetables. Secretary Schultz specifically expressed U.S. concerns about increased U.S. imports as a result of devaluation of the peso. In addition, he complained, inter alia, about the failure of the Mexican government to provide up-to-date planting information while noting that U.S. producers and shippers were doing so. The dollar/peso depreciation concern was soon written off by the U.S. government, and Mexico still refuses to give planting information even though Florida production figures are published in Mexico each week. The interagency group was subsequently dissolved. One thing remains clear: given the peso devaluation in Mexico, Mexico has and will continue to dump their produce in the U.S. to capture U.S. dollars while at the same time hindering shipments to Mexico with import license requirements and import duties of 40% ad valorem, or more.

In 1987, the Mexican government announced a major break-through in negotiations on the winter vegetable front. Mexico agreed to eliminate the licensing system for horticultural imports from the United States, which was limiting imports drastically. At the same time, Mexico imposed a 40% tariff on imports on horticultural products from the United States. The tariff has been reduced 20%, but these actions in fact have fully negated any benefit from the elimination of license requirements. In order to have fair trade, the U.S. should raise our import tariffs to the same level as Mexico's.

In December of 1989, the Florida tomato industry was devastated by freezing temperatures which killed 85% of the crop in the field. Estimates of losses were pegged at $60-70 billion. Following the freeze, prices soared, with tomatoes bringing wholesale prices of $40-50/carton. Supplies from Florida for January, February and March were mostly salvage operations, yielding only 5-10% of a normal crop. Imports from Mexico reaped the benefits of the record-setting prices for fresh tomatoes. When the replanted tomato crop from Florida came in, the combination of imports from Mexico and a new Florida crop caused a drastic drop in price, forcing many tomato growers in Florida to leave their crops in the field. In essence, they produced two crops and harvested half of one. Many may not survive.

In the trade of tomatoes in particular, and fruits and vegetables in general, Mexican dumping has historically depressed domestic prices, endangering the U.S. farmer. Because of the unstable nature of the fresh winter vegetable market, the situation does not lend itself to normal "anti-dumping" measures.

Mexican market penetration is occurring throughout the United States, even in the Northeast and the Southeast where the transportation cost advantage of Florida should give it a decisive competitive edge. The vast majority of winter vegetables grown in Sinaloa, Mexico are specifically produced for export to markets in the United States. Sales in their home markets consist mainly of lower or off-grade produce. The United

States market is, thus, the major source of revenue for the Mexican winter vegetable industry. Consumption in Mexico is small but acres planted each season continues to increase.

A recent brochure titled U.S.-Mexican Trade and Investment Issues issued by the Office of the United States Trade Representative, Office of North American Affairs, in February 1990, states that:

> Mexico is also the principal supplier of fresh fruits and vegetables to the United States, which accounts for over 90% of Mexico's total agricultural exports.

The United States provides a natural, major market for Mexican fruits and vegetables. Their history is one of underselling, dumping, and erecting trade barriers to U.S. produce in addition to finding ways to circumvent regulations and laws designed to create "fair trade." In the past five years, the ITC has been alerted to a number of new cases for unfair trading practices by Mexico.

Although in theory this proposed liberalization should promote freer competition, the low labor costs and abundant cheap resources of Mexico would lower both the production and harvesting market costs for the farmer and, therefore, the level of price for which harvesting is practical. Also, the less restrictive pesticide standards in Mexico coupled with governmental support in the form of subsidies of inputs and tax breaks give Mexican growers an unfair advantage not available to U.S. producers.

The USDA Horticultural Products Review (May 1989, FHORT 5-89, p. 10) states that:

> Mexican products like tomatoes, cucumbers, bell peppers, and eggplant make up a significant portion of commercially available supply in the winter-spring period. Exports can only increase to the degree that consumption increases and/or Florida shipments decrease. When Mexico ships too much product without accounting for supply and demand, price will collapse on this import-sensitive market as it did for tomatoes in 1987 and cucumbers in 1988.

Free trade with Mexico for agriculture will likely result in a collapse of the domestic winter vegetable industry.

Mexico is under numerous duty restrictions for illegal trade practices. In addition, in labor, in environmental, in narcotics, in human rights as well as in trade and other international concerns, Mexico is among the top offenders. Their air pollutes ours. Drugs pass over their borders into the United States, corrupting the youth of our nation. Illegal immigrants stream daily into the United States. Trade barriers are arbitrarily and without notice erected by Mexico annually, placing them in clear violation of international trading laws. When the basic laws of trade are not observed, FTE believes it is ludicrous to consider rewarding Mexico with preferential treatment.

Mr. Chairman, it is Congress' job to determine what the facts are, not what is proposed or promised. We believe the facts show a pattern of unfairness in trade matters especially with regard to tomatoes; and, the facts are that Mexican shipments of tomatoes to the U.S. have seriously harmed the tomato industry in Florida. Thus, the FTA proposal with Mexico is viewed with great alarm.

There are a number of additional issues which are pertinent to a discussion of the impact on United States farmers of the proposed liberalization. We believe each of the following concerns/issues amplify the adverse impact on Florida's growers.

First, the aforementioned freeze of 1989 damaged almost 100% of the fruit and vegetable crops on the ground at that time. The damage was devastating economically, for not only were the Florida crops destroyed but the high prices resulting from a drastic reduction in supply benefitted primarily the Mexican producers who flooded the U.S. market with low grade produce in time to depress the long-term price and, consequently, force out of business many U.S. farmers who could not recover even their production costs. Florida's producers certainly do not believe now is an appropriate time to consider any proposal giving more access to the Mexican producers whose recent access has put so many U.S. producers out of business.

Secondly, to put the proposal in historical context may be helpful. FTE has appeared or submitted testimony in a number of investigations involving fresh fruits and vegetables imported from Mexico. We believe that there have been many formal investigations involving both agricultural and non-agricultural imports from Mexico. Also, many investigations (such as antidumping and countervailing duty actions) have been initiated concerning unfair trade practices in Mexican imports, both agricultural and non-agricultural. We understand that, for the past ten years, there have been several investigations of unfair trade practices concerning Mexican imports producing several findings against these imports. In our opinion, these investigations would show a history of unfair trade practices. Accordingly, we request that these investigations and their results be made a part of the public record in this matter. Other trade matters such as phyto-sanitary requirements also show a pattern of uncooperativeness. These are specific matters on which various U.S. agencies have been involved, and they should be a part of the record. We ask that you direct each federal agency to provide a report on its experiences with Mexico (the good and the bad) and that such report be made a part of the public record.

It is clear from the government witnesses who testified at the June 14th hearing that the "official" bias in this matter is to support the Free Trade Agreement (FTA). We are not suggesting anything improper, but we believe all the facts must be brought out before a rational decision can be made. So far, the government witnesses have provided only part of the picture.

In addition, under the Narcotics Control Trade Act (19 U.S.C. §§ 2491-95), the President is authorized to deny benefits to drug producing or drug transit countries which he finds are failing to cooperate with the United States in the area of narcotics control. Although Mexico has established commissions, initiated study, and adopted a vocal approach to fighting drugs worldwide, more than posturing Mexican cooperative action is needed and has not yet been evidenced in stemming the flow of illegal drugs into this country. Indeed, the former United States Customs Service Commissioner has reported on the lack of cooperation by Mexican officials. If Mexico is "cooperating," their effort has not been effective in controlling the flow of narcotics into this country. In fact, on June 14, 1990, before this Subcommittee, Representative Charles Rangel (D-NY), Chairman of the Narcotics Abuse and Control Select Committee of the U.S. House of Representatives, stated that contraband crossing the Mexican border continues to be a major problem in the war on drugs. In fact, 50% of the cocaine which enters this country comes across the Mexican border. This figure has doubled since 1988 and marijuana traffic has tripled. Mexico remains the number one source of heroin exported to the U.S. Mr. Rangel asked that no discussions take place without a focus on this increase in illicit Mexican trade. We agree. Certainly, under these circumstances, preferential treatment should not be permitted.

Lastly, we firmly believe that the liberalization of trade policy on fresh produce from Mexico will not benefit United States consumers. In fact, in the long run consumers are likely to be hurt because supplies of these commodities will be controlled by Mexico. Mexico will dominate the United States market and dictate the price. In the short term too, Mexico will continue to dominate the imports of these commodities. With the freeze and other restrictions placed on United States producers such as the loss of EBDC (which is available for use by Mexican growers), Mexico clearly will enjoy market dominance. Liberalization may well adumbrate the end of the industry in Florida for these commodities.

CONCLUSION

The Florida Tomato Exchange, on behalf of its members, respectfully requests that the Committee on Ways and Means and the Subcommittee on Trade seriously consider our position on the liberalization of U.S.-Mexican trade in your hearings on the potential economic harm to United States producers. The severe weather conditions of December 1989 have injured severely the Florida fruit and vegetable crop. Mexican agriculture has abundant access to U.S. markets today even though the Mexican government has continued to abuse any access to U.S. products. With drastically reduced American produce available, the initiation of increased produce from Mexico could forever damage the American farmer. The economic harm to U.S. producers, workers, related industries, communities and consumers of a reduced tariff for these commodities would be severe.

STATEMENT OF JOHN BLAKE
INTERNATIONAL BROTHERHOOD OF TEAMSTERS, WESTERN CONFERENCE

My name is John Blake, I am an International Representative employed by the International Brotherhood of Teamsters and assigned to the Western Conference of Teamsters. I am also a member of the Arizona Agriculture Employees Relations Board.

We are here today to discuss a Free Trade Agreement between the United States and Mexico. It is hopeful that the Committee will listen to our testimony and that we are helpful in providing you with information and ideas.

I want to emphatically state that I am thoroughly opposed to a Free Trade Agreement at this time. The United States cannot economically compete with Mexico without creating a poverty belt in those states along the Mexican border, the wage differentials between the U.S.A. and Mexico are far apart, wages in Mexico at $3.00 to $4.00 per day, lack of health care and lack of legislation to protect workers on the job. The labor unions are unstable because of Government control, the workers look for higher wages, the government says "No" then there are vicious strikes where the Mexican government sends in troops to put the strikers down. Until free trade unions flourish in Mexico, there will be no real democracy. A government control must be lifted in certain areas including financial (banks, etc.)

We in the labor movement are not all gloom and doom sayers. If a Free Trade Agreement is inevitable between the U.S.A. and Mexico, there should be certain guidelines and proposals looked at. The first area that I can think of is some sort of strategy for development. We should not be doing things as they come up or as problems arise. The strategy for development should be done by Mexico.

New concerted efforts by the parties that will represent a major attempt to overcome the serious obstacles which at present exist to impede economic and social development.

Diminishing or removing social inequalities and intensification of practical measures to generate an atmosphere for increased job opportunities in Mexico for Mexicans.

Wages and benefits must eventually equal those of the United States workers.

Legislation must be passed and enforced for worker protection, i.e. Education, Health care, Job Safety, liveable minimum wage and other areas that will create a greater social equality for Mexican workers.

Opening the boarder to the movement of free labor between the two countries at this time would be impractical because only the Mexican government would benefit. The Mexican workers will work in the U.S.A. The Americans will not work in Mexico for $3.00 to $4.00 per day, would you?

I also understand that there is a bill in Congress that would allow contractors in Mexican construction, farm contractors, etc. to bring Mexican workers into this country and pay those (Mexican) workers the wage rates in effect in Mexico. A law such as this would be devastating to the United States' work force.

Just along the Mexican border with the Maguiladoras program, four hundred fifty thousand American jobs have been eliminated and the Mexican people who are employed in these border areas are only paid no more than four fifty ($4.50) per day. That four fifty rate is a high figure; most workers are paid less.

I would suggest the following:

1. That no tariffs be lifted at this time.
2. That Mexico provide a "Strategy for Development" to this Committee, and set time limits for such a strategy.
3. Establish a Program for National Recovery that would include, but not be limited to:
   (a) American-Mexican-Canadian Community Dimensions.
   (b) Macroeconomic Policies.
   (c) Tax Reform.
   (d) Greater Social equity, i.e. greater social benefits in terms of access to health and education services.
   (e) Employment (incentive to attract overseas manufacturing).
   (f) Labor Legislation.
   (g) Review and Monitoring.

The above has been adopted by other countries to bring them to a competitive basis with other European nations and is working well because they, the various governments, are working to make the programs work.

It is too early to enter into any type of Free Trade Agreement with the Republic of Mexico. Government must give up control of certain areas it now contols.

Hopefully my testimony has given you some new ideas. I believe there must be more discussion and also action by the Republic of Mexico to want to get involved in a Program for National Recovery. Only then will the U.S.A. and Mexico be able to negotiate a Free Trade Agreement that will be equitable for all.

Thank you.

Before the:
Subcommittee on Trade
Committee on Ways and Means
U. S. House of Representatives

STATEMENT ON UNITED STATES-MEXICO ECONOMIC RELATIONS

SUBMITTED BY
JAY MAZUR, PRESIDENT,
INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO
JUNE 25, 1990

This statement is submitted on behalf of the International Ladies' Garment Workers' Union, AFL-CIO. Our Union has some 200,000 members employed in the production of women's and children's apparel, accessories and related products. Our members live and work in more than two-thirds of the fifty states.

While the hearing notice issued by the Committee indicated a wide range of topics relating to economic relations between Mexico and the United States, this statement is confined primarily to a discussion of trade in apparel. Of course, many of the comments herein may also apply to other manufacturing sectors.

Not specifically mentioned in the hearing notice, but most certainly on the agenda, is the possibility of a United States-Mexico Free Trade Agreement, now that both countries support the concept and have agreed to commence negotiations after December. Mexico hopes an agreement will alleviate its domestic economic problems. The Bush Administration envisions such agreements as a way to insure U. S. economic supremacy in the Western Hemisphere. In addition to Mexico, economic talks are also taking place with the Andean nations.

The Administration would essentially have Mexico, and other Latin-American countries as well, expand their role as low-wage production facilities for U. S. manufacturing firms, including apparel companies. The ILGWU has reservations about the potential impact of the recent Free Trade Agreement with Canada, but Canada has wage levels and living standards similar to those in the United States. Free Trade Agreements with such underdeveloped countries as Mexico would severely jeopardize U. S. workers in apparel and other manufacturing sectors by exporting their jobs. Agreements with countries where the wage level is only a tiny fraction of our own invites disaster for U. S. workers.

Trade in apparel plays a significant role for both Mexico and the United States. In 1989, imports of apparel made of textile materials from Mexico amounted to $482 million dollars in customs valuation. U. S. exports of apparel to Mexico in 1989 were valued at $300 million.

These latter shipments, however, were not the transactions normally associated with foreign trade. Mexico serves as a low-wage production facility for U.S. apparel companies. The trade data through 1989 mostly reflect cut garment parts flowing south across the border for assembly in Mexico and the completed garments flowing north for distribution in U.S. markets. The fact is that the number of complete garments exported to Mexico from the U.S. very limited. So is the number of finished garments of total Mexico origin shipped to the United States.

Four factors account for this unusual trade pattern:

- Item 807.00 of the Tariff Schedules of the United States (now Item 9802.00.80 of the new Harmonized Tariff Schedule).
- The Maquiladora (in-bond production) program in Mexico.

- The Special Regime with its virtually unlimited quotas for garments assembled in Mexico of U. S. made and cut fabric.

- The extremely low wage levels in Mexico relative to those of the United States.

The combination of these factors has led to a steady rise in apparel imports from Mexico and the export of American jobs.

Item 807.00

A major factor in encouraging apparel imports from Mexico has been the existence in the U.S. Tariff Schedules of Item 807.00 (Item 9802.00.80 of the new Harmonized code, but still commonly referred to as Item 807).

Item 807 permits duty-free import of U.S. components assembled abroad. When the finished products are returned to the United States, the value of the duty-free U.S. components are subtracted from the total value and duty is paid only on the value added abroad. On the average, for apparel, the U. S. components constitute two-thirds of total Customs value. Duty is therefore paid on only one-third of the total value, a significant saving to the importing company.

Item 807 was formally promulgated in 1963 when the U. S. Tariff Schedules were recodified. Until then, the concept was simply the outgrowth of a prior court decision involving the import of a Canadian boat with an American-made engine. Liberal interpretation of the newly-formalized provision led to its application to assembly of apparel and it has grown in importance since 1965.

Components shipped abroad for assembly can be entirely made in the United States or can consist wholly or in part of foreign materials, provided they undergo substantial transformation in the U. S. Imported fabric cut in the United States is considered a U. S. component by virtue of the cutting process.

Because of its proximity to the United States, and the fact that goods can be transported across the border by truck, Mexico quickly became one of the earliest sources of Item 807 apparel imports. The most significant growth in such trade took place in the 1980's as Mexico embarked on a program of peso devaluation. American companies poured garment assembly work into Mexico, putting profits ahead of any responsibility to U.S. workers. Even today, more and more companies are transferring assembly operations to Mexico, and to its neighbors in the Caribbean, in a search for cheap, exploitable labor.

In 1983, Item 807 apparel shipments to the U. S. from Mexico amounted to $126.9 million dollars. In 1989, such imports were valued at $437.0 million, a better than three-fold increase in only six years.

Assembly operations have typically accounted for the vast majority of Mexico's apparel shipments to the U. S. In 1989, $437.0 million of apparel (customs valuation) entered the United States from Mexico under these provisions. This was 90.6 percent of our total apparel imports from Mexico of $482.3 million.

The growing use of foreign assembly plants poses a grave danger to U.S. garment workers. The cost of cutting fabric in the United States is estimated at between five and seven percent of the labor cost of an average garment. Thus, between 93 and 95 percent of the jobs required to make a garment are exported. While the use of Mexican assembly plants may be of benefit to the United States "manufacturer" by increasing profits, its impact on U. S. workers is totally destructive since such operations wipe out critically needed job opportunities.

The Maquiladora Program

Just as the offshore assembly tariff loophole was taking hold in the U. S., in 1965 Mexico introduced the Maquiladora (in-bond) production program to encourage industrialization near its border with the U. S. The end of the "bracero" program in 1964 under which migrant farm workers temporarily worked in the U. S., created high male unemployment in the border area which the new program was supposed to alleviate.

The Maquila program permitted plants in the border area to receive foreign machinery and raw materials free of duty if most of the completed products were destined to be exported from Mexico. In addition to low wages, companies received other benefits as well.

The number of Maquila operations grew rapidly. According to the USITC report prepared for the Committee, there were 1,699 such plants in all industries employing 444,000 workers in August 1989. Of these, more than 250 plants with some 40,000 workers were assembling apparel for U. S. companies.

The USITC report notes that the Maquila program has been "liberalized" several times since its inception. Plants no longer have to be in the border area and a greater proportion of the goods made in such plants can be sold in Mexico. The report also notes easing of Mexico's restrictions on imports and investment.

While these changes seem to be viewed by the ITC report as "improvements", from the standpoint of the U. S. garment worker there is no gain, but rather a setback. The "liberalization" either encourages the opening of new Maquila plants or expansion of existing ones and thereby drains off additional U. S. jobs.

The opening of Mexico's borders to more imports also has limited application. Most U. S. firms will continue to utilize Mexican factories with their far lower wage levels. A handful of U. S. firms may have an opportunity to export a limited number of finished garments to Mexico when fads spring up.

Available data largely confirm the one way direction of apparel imports. In 1989, the United States exported $299.5 million worth of apparel and apparel parts to Mexico. There is no way to segregate exports of finished garments from those of garment parts. Shipments of all of the parts needed to complete a garment -- the customary manner of shipment -- are considered the same by our classification rules as the export of the finished garment itself.

However, data is available from the import side of the ledger on the value of U. S. apparel components exempt from duty. In 1989, the U. S. components being returned amounted to $301.9 million, or virtually the same amount as the clothing exports (primarily parts) of $299.5 million. Small differences in the two numbers are easily explained by reporting errors, as well as the fact that some garment findings, e.g., buttons or shoulder pads, may be exported separately from the cut fabric parts but are returned as part of one completed garment.

The data clearly demonstrate that through 1989 only a small portion of U. S. apparel exports to Mexico consist of finished garments that were made in the United States and provided jobs for American workers. The potential for expanding shipments of finished garments to Mexico is limited.

Although the Maquila program was intended to provide jobs for former "braceros", the end result was quite different. The work force at most of the light assembly plants established under the Maquila program was predominantly female and few of the unemployed "braceros" were hired. Even where plants were modern and air-conditioned, working conditions and living conditions rarely kept pace. Workers crowding into the border areas encountered severe shortages of housing, schools and other necessities of life.

Profits were expropriated to the U.S. rather than being invested in the community to improve its infrastructure.

The Special Regime

While the Caribbean Basin countries have been accorded special treatment by Act of Congress, the Reagan and Bush Administrations have extended some of the CBI privileges to Mexico through Administrative fiat. The Special Regime is one such example.

Imports of apparel and textiles are generally subject to the Multifiber Arrangement (MFA) and bilateral agreements negotiated thereunder whether they are totally of foreign origin or assembled of U. S. components. In 1986, however, President Reagan announced that the U. S. would negotiate agreements with CBI beneficiary countries providing Guaranteed Access Limits (GAL's) for apparel assembled from garment parts that were not only cut in the United States (Item 807 apparel) but were made from fabric produced in the U. S. as well. Quotas for the new apparel type (known as 807A) were virtually unlimited since all the countries had to do to get more quota was request it.

Virtually identical quota provisions were extended to Mexico in the renewed bilateral agreement effective January 1, 1988 with the addition of a Special Regime covering garments made of U.S. cut and formed fabric. In general, the major result of the Regime was the reservation of a major portion of the total quota for given product categories for 807A goods.

As an example, in 1987 before the Special Regime, Mexico could ship to the U. S. 2,000,000 pairs of cotton pants. These could have been made entirely in Mexico or assembled from U. S. components. Under the Special Regime, the total quota for cotton pants for 1988 was set at 2,150,000 pair but 86.5 percent had to be made of U. S. cut and formed fabric. Only 13.5 percent of the quota was relegated to goods entirely of Mexican origin.

Brassieres are a second example. The 1987 quota was 1,200,000 dozen of which any number could have been of entire Mexican origin or assembled from U. S. components. The 1988 quota was more than doubled to 2,500,000 dozen, but only 20 percent or 500,000 dozen could be outside the Special Regime.

All in all, 17 product categories were made subject to the Special Regime. As much as 90 percent of the quota was reserved for the U. S. companies engaged in 807A assembly operations.

The effects of the Special Regime are evident from the trade data. Of the $482.3 million apparel imports from Mexico in 1989, only $45.3 million, less than 10 percent, was made from non-U. S. components. Special Regime imports amounted to $331.9 million while regular 807 imports accounted for the remaining $105.1 million. The alleged benefits of the program to Mexico largely consisted of its contribution of exploited labor to produce garments for U. S. firms.

In February 1990, Mexico and the United States amended and liberalized their bilateral agreement. Many quotas were dropped and replaced with Designated Consultation Levels (DCL's). Remaining quotas were substantially increased. This made the Special Regime almost equivalent to the CBI agreements in that quotas were now virtually open-ended.

The chief beneficiaries of the Special Regime were the U. S. apparel companies which obtained huge quota allocations for 807A work and the U. S. textile firms that supplied the fabric from which these garments were made. On the losing side were

American garment workers who jobs were sacrificed for the sake of profit and Mexican workers who worked long hours for low pay to produce the garments.

By leaving a minuscule portion of the quota for garments of wholly Mexican origin, Mexico is denied the opportunity to develop indigenous textile and apparel industries. The Special Regime ensures that Mexico will continue to be a low-wage production area to be exploited by U. S. companies.

Low Wages

While trade and investment rules clearly played a significant role in encouraging rapid growth of apparel imports from Mexico, the main driving force has to be the low level of Mexican wages. This is true for manufacturing as a whole, as well as more specifically in the case of apparel.

A December 1989 ITC report on Production Sharing (a euphemism for Item 807) cites average hourly earnings in Mexican manufacturing in 1987 as $.95 (U.S.) per hour, slightly less than 10 percent of the comparable U.S. figure of $9.91 per hour. Even more astonishing is the fact that due to continued devaluation of the peso by Mexico, 1987 hourly earnings were actually 25 percent lower than in 1984 when the average was $1.26. The ITC report did not provide data on apparel earnings.

Based on data published by the U. S. Department of Commerce, the ILGWU Research Department estimates that hourly compensation (including all fringes) in the apparel industry in Mexico currently averages $.34 (U.S.). This figure is less than 5 percent of the compensation level in the U. S. apparel industry.

The Mexican wage level makes it competitive with even the poorest Far Eastern countries, particularly when the advantages of proximity and special tariffs are taken into account.

Future Trade Prospects

There is every indication that even in the absence of significant change in the rules, more and more apparel will be imported from Mexico. This will be especially true of Item 807 and Item 807A assembly work. The transfer of operations by American companies is still in progress in the wake of continued declines in the value of the peso. Apparel imports from Mexico are up 8.6 percent in the first three months of 1990, a much faster pace than shipments from all countries.

The continued transfer of employment to Mexico means a loss for U. S. garment workers, most of whom have few alternative job opportunities.

The ILGWU fully supports the need to aid neighboring countries such as Mexico, but it should not be done at the expense of a limited group of workers who lack job alternatives. Many U. S. apparel workers have their roots in Mexico or elsewhere in Latin America. Many rely on their U. S. jobs to help support families in these areas. To the extent that support for Mexico requires additional apparel imports to the United States under any type of program, a corresponding reduction should take place in shipments from the major Far Eastern shippers. There must be a global sharing of the burden.

We have earlier noted the problems that U. S. workers in the garment and other manufacturing industries would face if there is a Free Trade Agreement between Mexico and United States. Such a move would be a serious mistake and would cause further injury to U. S. workers. Opening up Mexican markets or removal of Mexican tariffs would probably do nothing to encourage shipments of completed garments from the United States. Assuming that the demand for such garments arises, the garments would be made with U. S. designs, specifications, and fabrics, and under U. S. supervision, in Mexican-based factories where the hourly wage is but one-twentieth of that in the United States.

On the other hand, further opening of the U. S. market to apparel sewn in Mexico will surely aggravate existing conditions. More U. S. workers will lose jobs without significantly improving working and living conditions for counterpart workers in Mexico.

MORGAN CORPORATION
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215-286-5025

Terry R. Wilson
President

The Honorable Representative Sam Gibbons, Chairman
The Ways and Means Committee/Trade Subcommittee
The United States House of Representatives
Washington, D.C. 20515-6354

Dear Representative Gibbons:

May I respectfully submit my Petition to testify before your Subcommittee (whether directly or through a spokesman representing me) at the next hearings that will be held on Bills H.R. 1360 and H. Con. Res. 59, dealing with a U. S. - Mexico free trade agreement. If no further hearings are held by your Committee, may I be allowed to testify in writing.

My experience of the Mexican business environment will shed a true light on the down-to-earth realities of doing business in Mexico.

A basic requirement of all business activities, including trade, is the assurance that contracts and laws can be enforced, and that all are equally accountable before the law and likewise enjoy equal protection under the law. THERE IS NO SUCH ASSURANCE IN MEXICO.

In Mexico, all power and all business are controlled by a ubiquitous clique, which can act in the most arbitrary way without fear of consequences, violating laws and contracts with complete impunity. The power clique's impunity, strong arm tactics, and readiness to resort to violence are well documented in the recently published Americas Watch Report "Human Rights in Mexico: A Policy of Impunity". Although the report only deals with Human Rights, the picture it presents applies just as well to other rights, in particular to businessmen's and investors' rights. A foreigner who trades or transacts any business in Mexico is likely to be dealing with companies controlled by people who enjoy impunity. Accordingly, he is far from sure of being able to enforce compliance with contracts he has entered into, or with applicable Mexican laws. However, he is himself subjected to the full force of such contracts and laws.

Under these circumstances, a free trade agreement with Mexico (and the increased investment in that country that it would naturally encourage) can only lure Americans into costly business traps. The agreement will not be fair and equitable unless the Mexican government provides ironclad guaranties that it will promptly put an end to the impunity of the power clique and bring Mexico under the Rule of Law.

May I bring before your Subcommittee substantive evidence to the statements made above, based on my experience as a fellow small investor in a Mexico project, and fellow Plaintiff in a collective lawsuit in Mexican Federal Court.

Respectfully yours,

Terrence R Wilson

Terrence R. Wilson
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August 27, 1990

PATTERSON FROZEN FOODS, INC.
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PHONE 209-892-2611 • FAX 209-892-5209

U.S. HOUSE OF REPRESENTTIVES

SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS HEARING ON U.S. / MEXICO ECONOMIC RELATIONS

JUNE 14, 1990

PATTERSON FROZEN FOODS, INC. IS A PRIVATELY-HELD VEGETABLE PROCESSOR LOCATED IN PATTERSON, CALIFORNIA. WE PROCESS AND FREEZE VARIOUS TYPES OF VEGETABLES WITH BROCCOLI, CAULIFLOWER AND VEGETABLE BLENDS CONTAINING BROCCOLI OR CAULIFLOWER MAKING UP A SIGNIFICANT PORTION OF OUR ANNUAL PACK. WE HAVE BEEN IN BUSINESS OVER 44 YEARS AND HAVE A CURRENT WORKFORCE OF SOME 900 PEOPLE.

WE ARE GRATEFUL TO THE SUB-COMMITTEE FOR THIS OPPORTUNITY TO CONVEY SOME OF OUR CONCERNS ABOUT THE POSSIBILITY OF ESTABLISHING A FREE TRADE ZONE WITH MEXICO, OR ELIMINATING THE EXISTING TARIFF ON THESE IMPORT-SENSITIVE AGRICULTURAL COMMODITIES.

AS POINTED OUT IN THE USITC'S RECENT INVESTIGATION INTO THE COMPETITIVE CONDITIONS IN THE U.S. MARKET FOR ASPARAGUS, BROCCOLI AND CAULIFLOWER (INVESTIGATION NO. 332-253). OUR INDUSTRY HAS SEEN A MAJOR INCREASE IN THE VOLUME OF IMPORTED FROZEN BROCCOLI AND CAULIFLOWER FROM MEXICO.

AS A POINT OF FACT, THE LEVEL OF IMPORTED MEXICAN FROZEN BROCCOLI HAS GONE FROM 27.7 MILLION POUNDS IN 1983 (1) TO 232.3 MILLION POUNDS IN 1989 (2). THIS EQUATES TO OVER A 700% INCREASE IN 7 YEARS.

LOOKING AT FROZEN CAULIFLOWER, THE LEVEL OF IMPORTED MEXICAN FROZEN CAULIFLOWER HAS GONE FROM 17.5 MILLION POUNDS IN 1983 (3) TO 56.5 MILLION POUNDS IN 1989 (4). THIS EQUATES TO OVER A 200% INCREASE IN 7 YEARS !

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(1) U.S.I.T.C. PUBLICATION #2136, PAGES 2-19, TABLE 2-10
(2) U.S. BUREAU OF CENSUS
(3) U.S.I.T.C. PUBLICATION #2136, PAGES 2-21, TABLE 2-12
(4) U.S. BUREAU OF CENSUS

DURING THE SAME SEVEN-YEAR PERIOD, DOMESTIC PRODUCTION OF FROZEN BROCCOLI HAS GONE FROM 285.4 MILLION POUNDS IN 1983 (5) TO 290.6 MILLION POUNDS IN 1989 (6) OR JUST OVER A 1% INCREASE IN DOMESTIC PRODUCTION.

LOOKING AT FROZEN CAULIFLOWER FOR THE PAST SEVEN (7) YEARS, DOMESTIC PRODUCTION HAS GONE FROM 100.5 MILLION POUNDS IN 1983 (7) TO 109.8 MILLION POUNDS IN 1989 (6) OR JUST OVER A 9 % INCREASE IN DOMESTIC PRODUCTION.

THEREFORE, AS SHOWN ON ACCOMPANYING CHARTS "A" AND "B", THE VOLUME OF BOTH IMPORTED FROZEN BROCCOLI AND CAULIFLOWER FROM MEXICO ARE CONTINUING TO CLIMB TOWARD EQUALIZING THE LEVELS OF DOMESTIC PRODUCTION.

THIS EXPLOSIVE GROWTH OF IMPORTED MEXICAN PRODUCT HAS OCCURRED WHILE THE CURRENT 17-1/2% TARIFF IS IN PLACE. SHOULD THE TARIFF BE REMOVED OR REDUCED IN ANY MANNER, THE EFFECT WOULD CERTAINLY BE EXTREME ON THE CONTINUING ABILITY OF DOMESTIC PROCESSORS TO MAINTAIN MARKET SHARE. THE MEXICAN PROCESSOR WOULD HAVE THE ABILITY TO LOWER PRICES BY 17-1/2% AND MAINTAIN THE SAME MARGIN AS THEY CURRENTLY ENJOY. IN SUCH AN EVENT, DOMESTIC PROCESSORS WOULD NOT BE IN A POSITION TO REMAIN COMPETITIVE IN THE MARKET FOR THESE COMMODITIES. THIS WOULD JEOPARDIZE THE OVER 300 JOBS AT OUR FACILITY THAT DIRECTLY INVOLVE THE PROCESSING OF THESE PRODUCTS AS WE WOULD HAVE NO CHOICE BUT TO DO MUCH MORE FOREIGN SOURCING OF OUR BROCCOLI AND CAULIFLOWER.

SUCH A DECISION WOULD HAVE A RIPPLE AFFECT ON OUR INDEPENDENT GROWERS, CAUSING A LOSS OF A MARKET FOR THEIR CROPS, ON OUR

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(5) U.S.I.T.C. PUBLICATION #2136, PAGES 3-14, TABLE 3-6

(6) AMERICAN FROZEN FOOD INSTITUTE PRELIMINARY 1989 PACK STATISTICS

(7) U.S.I.T.C. PUBLICATION #2136, PAGES 3-15, TABLE 3-7

REMAINING EMPLOYEES IN LOSS OF WORK AND ON OUR LOCAL ECONOMY IN LOSS OF TAX REVENUE FROM BOTH THE GROWERS AND THE EMPLOYEES. IT IS IMPERATIVE THAT THE SUB-COMMITTEE FULLY REALIZE THE NEGATIVE IMPACT ON THE DOMESTIC PROCESSOR OF EITHER A FREE TRADE AGREEMENT WITH MEXICO OR A REDUCTION OF THE EXISTING TARIFF STRUCTURE. THOSE OF US LEFT IN THE DOMESTIC VEGETABLE PROCESSING BUSINESS BEAR A SOCIAL RESPONSIBILITY TO SUPPLY CLEAN, SAFE AND ECONOMICAL FOOD FOR AMERICA. WE PROVIDE STABLE MARKETS FOR OUR GROWERS WHO SUPPLY RAW PRODUCT TO US UNDER THE MOST STRICTLY ENFORCED FOOD SAFETY AND PESTICIDE REGULATIONS IN THE WORLD.

OUR EMPLOYEES ARE COLLECTIVELY BARGAINED WITH AND COMPENSATED WITH FAIR MARKET WAGES AND BENEFITS. THEIR WAGES AND BENEFITS PROVIDE THEM WITH HEALTH COVERAGE, A RETIREMENT INCOME AND THE BASIC SECURITY OF BEING ABLE TO PROVIDE FOR THEIR FAMILIES.

WE QUESTION THE FACT THAT IN CONTRAST, THE MEXICAN FIRMS BEAR NO SUCH SOCIAL RESPONSIBILITY TO EITHER OUR DOMESTIC EMPLOYEES, GROWERS OR THE ULTIMATE CONSUMER. THE PLAYING FIELD IS NOT A LEVEL ONE. THUS, BY ELIMINATING OR MODIFYING THE EXISTING TARIFF, OR DEVELOPING A FREE TRADE AGREEMENT WITH MEXICO, WE AS A NATION MAKE IT OUR POLICY TO EXPORT OUR JOBS, INCREASE OUR DEPENDENCE ON IMPORTED FOOD AND REJECT OUR SOCIAL RESPONSIBILITY TO OUR CITIZENS WHO WORK OR SUPPLY THE DOMESTIC PROCESSING INDUSTRY.

FURTHERMORE, AS OUR GOVERNMENT CONTINUES TO LEGISLATE THE SHIFTING OF THE COST BURDEN FOR PROGRAMS OF SOCIAL RESPONSIBILITY (I.E. MANDATORY HEALTH BENEFITS, C.O.B.R.A., CHILD CARE, PLANT-CLOSING NOTIFICATION, ETC.) FROM ITSELF TO THE PRIVATE EMPLOYER AS A METHOD OF MEETING THESE COSTS WITHOUT RAISING TAXES, WHO WILL PICK-UP THESE SOCIAL COSTS IF THE EMPLOYER IS UNABLE TO MAINTAIN A COMPETITIVE POSITION IN THE MARKET DUE TO LOW-COST IMPORT PENETRATION ? WILL THE IMPORTER WHO SHARES OUR MARKET SHARE THESE COSTS ? IF SO, HOW ?

AS AN ALTERNATIVE TO A FREE TRADE AGREEMENT WITH MEXICO OR SOME OTHER TYPE OF TARIFF REDUCTION, WE SUGGEST THE FOLLOWING APPROACH BE TAKEN:

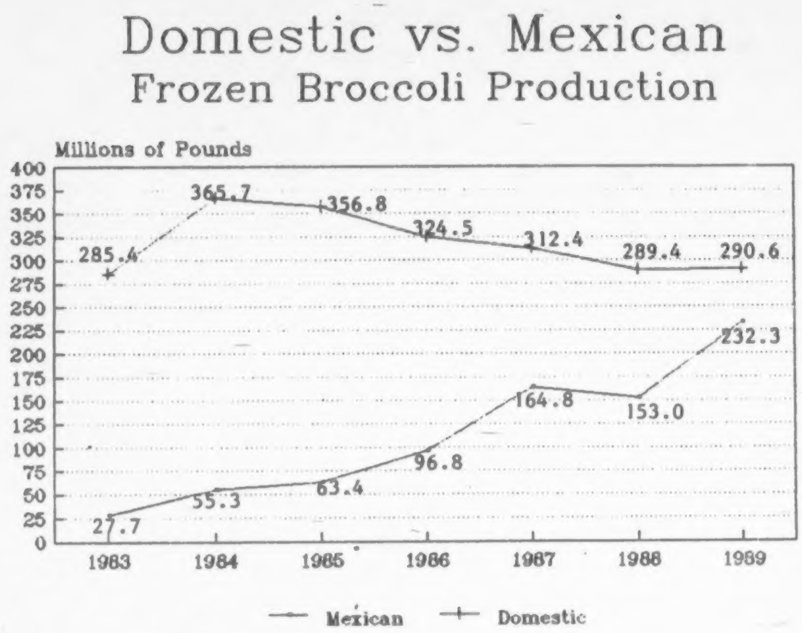
DEVELOP A COMPREHENSIVE AGRICULTURAL POLICY THAT DEALS WITH THE ISSUE OF IMPORT-SENSITIVE AGRICULTURAL PRODUCTS SUCH AS FROZEN BROCCOLI AND CAULIFLOWER AS THEY RELATE TO THE DOMESTIC FOOD SUPPLY;

INSURE THAT THE EXISTING LAWS REGARDING COUNTRY OF ORIGIN LABELING ARE ENFORCED UNIFORMLY SO THAT THE AMERICAN PUBLIC CAN MAKE A FREE CHOICE TO SUPPORT AMERICAN PRODUCT AND KEEP AMERICAN JOBS;

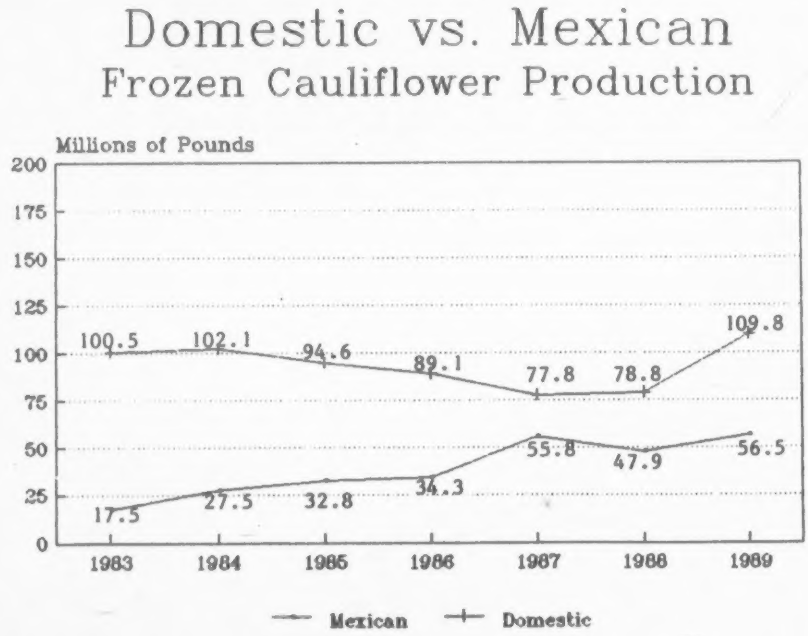
REQUIRE THAT NO CHEMICAL PESTICIDE WHICH HAS BEEN BANNED FROM USE INSIDE THE U.S. BE EXPORTED FOR USE OUTSIDE THE U.S. IF THESE PESTICIDES CAN'T BE USED HERE ON OUR FOOD PRODUCTS, WHAT SENSE IS IT TO EXPORT THEM TO COUNTRIES SUCH AS MEXICO FOR USE ON PRODUCT THAT ENDS UP ON AMERICAN TABLES ?

FINALLY, TO INSURE COMPLIANCE WITH THE SAME FOOD AND PESTICIDE SAFETY REGULATIONS AS DOMESTIC PROCESSORS, AN APPROPRIATE USER FEE SHOULD BE LEVIED ON THE IMPORTERS FOR THE EXPRESS PURPOSE OF SUPPORTING A RIGOROUS, MANDATORY F.D.A. INSPECTION PROGRAM OF IMPORTED PRODUCT. IN THIS WAY, THE BURDEN OF FUNDING THE INCREASED F.D.A. EXPENSES WOULD BE PAID BY THE IMPORTER, NOT THE AMERICAN TAX PAYER.

THANK YOU FOR YOUR ATTENTION TO THIS SUBJECT AND ALLOWING OUR VIEWS TO BE HEARD.



May 8th, 1990 - **CHART 'A'**



May 8th, 1990 - **CHART 'B'**

Production statistics compiled from Official Pack Statistics of the American Frozen Food Institute; USITC Publication 2186; and U.S. Dept. of Commerce and Bureau of Census Data

SPRING MANUFACTURERS INSTITUTE, INC.
STATEMENT ON UNITED STATES - MEXICO ECONOMIC RELATIONS
Submitted to the Subcommittee on Trade
Committee on Ways & Means
United States House of Representatives

The Spring Manufacturers Institute, Inc., is a non-profit trade association of manufacturers of precision mechanical springs and their suppliers throughout North America. SMI's 289 member companies represent more than two-thirds of U. S. spring production. In 1988, sales volume totaled more than $1.67 billion, representing the productive work output of more than 20,000 American workers. In 1988, sales of springs to the automotive market constituted approximately 46% or $768 million in total sales volume.

For automotive springs particularly, Mexico is the second largest source of U. S. imports ($37.8 million in 1989) after Canada. By contrast, U. S. exports to Mexico in this sector amount to only $3.5 million. Mexico has sustained trade surpluses in this sector at least since 1982.

For these reasons, SMI has participated in several recent investigations by the U. S. International Trade Commission and GSP Reviews by the Office of the U. S. Trade Representative in opposition to the redesignation of Mexico as eligible for duty-free treatment for certain springs under the U. S. Generalized System of Preferences.

At the request of the Office of the U.S. Trade Representative, the U.S. International Trade Commission instituted an investigation of the probable economic effects of redesignating certain items for duty-free treatment under the GSP and invited public comment on the list. On December 15, 1989 SMI filed a statement opposing the redesignation of Mexico as a beneficiary country eligible for GSP treatment for certain springs imported into the United States.

On January 22, 1990, the USTR requested comments on certain policies which had been identified as part of the 1990 GSP redesignation decisions. Again, on February 21, 1990, SMI submitted a brief to USTR in opposition to the redesignation. SMI urged the Administration not to expand Mexico's GSP benefits in the automotive springs sector at this time. However, automotive springs were included in the Administration's recent decision to reinstate duty-free GSP benefits on $426 million in auto parts imports from Mexico.

This is not a new issue for SMI members. On August 7, 1985, Notice was issued in the Federal Register announcing that springs and leaves for springs of base metal suitable for motor vehicle suspension from Mexico, under former Tariff Schedules of the U.S. 652.84, were being considered as part of the general review under the GSP. In response, SMI filed a statement opposing the waiver of competitive need limitations for certain springs from Mexico on November 15, 1985. In March 1986, the USTR announced that imports of the aforementioned springs from Mexico were denied redesignation.

Since the 1985 General Review, SMI has repeatedly asserted that like or directly competitive articles are produced in the United States, that Mexico continues to demonstrate a degree of competitiveness in these items to such an extent that it should remain ineligible for GSP duty-free treatment and, therefore, that redesignation should not occur. There has been no significant diminution in the importation of such springs from Mexico to justify redesignation. If anything, the recent competitive position of Mexico has been strengthening. In the past three years, automotive spring imports from Mexico have increased by nearly $10 million.

The GSP program is a statutory directive designed to give preference to only those U.S. imports from developing countries which need competitive assistance through duty-free treatment. Specifically, the competitive need limitation provision of the statute is intended to remove any beneficiary developing country from the preferential treatment once that country shows that it is sufficiently competitive.

The Trade Act of 1974 further provides that a country shall not be treated as a beneficiary developing country with respect to certain articles when that country has exported (either directly or indirectly) to the United States a quantity of any eligible article equal to or exceeding 25 percent or a certain amount of the appraised value of the total imports of any such article into the United States, during the preceding calendar year, if the President determines that the beneficiary developing country has demonstrated "a sufficient degree of competitiveness (relative to other beneficiary developing countries) with respect to any eligible article."

Mexico demonstrated that it was sufficiently competitive regarding the importation of springs, leaves for springs and helical springs when such U.S. imports reached 55.7 percent in 1982. Accordingly, these articles were no longer eligible for GSP treatment.

Over the last eight years, these articles from Mexico have continued to be denied redesignation for GSP eligibility. The Office of the USTR, in 1985, designated the products within TSUS 652.84 with an asterisk, indicating the denial of redesignation. By report dated March 31, 1986, the USTR confirmed the conclusion that such springs and leaves for springs from Mexico would not be reinstated for GSP treatment. There has been an overall increase of 35.8 percent in such imports from Mexico for the years 1982 through 1988. While there has been a slight decrease from the 1982 import level of 56 percent, Mexico has remained "sufficiently competitive relative to other beneficiary developing countries" by maintaining an import level between approximately 28 and 34 percent since 1986.

On January 1, 1989, the U.S. adopted the Harmonized System for reporting U.S. imports. Prior to 1989, however, springs, including helical springs, and leaves for springs from Canada, imported into the U.S. pursuant to the Automotive Parts Trade Agreement, were classified exclusively under TSUS 652.85. Under the former Tariff Schedule, U.S. imports of Mexican springs (and other non-Canadian springs) were only reported under TSUS 652.84. Canadian goods imported under APTA had no bearing on the GSP eligibility of Mexican articles entering the U.S. under TSUS 652.84 (as Canada was and is not a "beneficiary developing country") and thus were not considered when reviewing Mexico's level of competitiveness "relative to other beneficiary developing countries."

Data for 1989, indicate that Mexico remains competitive in the U.S. market for springs, leaves for springs and helical springs. Over the last calendar year, springs and leaves for springs from Mexico accounted for more than 31 million or 28.5 percent of all U.S. imports. This, in turn, represents more than 43 percent of the U.S. imports of such non-Canadian items as computed under the former TSUS formulation.

Likewise, imports of helical springs from Mexico during 1989, accounted for 6.7 million or approximately 4.6 percent of all U.S. imports. Under the former TSUS formulation (excluding Canadian imports) such imports constitute 43.6 percent.

During 1989, such imports from Mexico accounted for 43.3% of the U.S. imports (excluding Canadian imports) or nearly $38 million. These imports from Mexico clearly exceed the estimated 1989 statutory ceiling value of approximately $35 million. Given these figures, Mexico cannot contend that it is still a "developing" country in this industry.

These data clearly reflect Mexico's high degree of competitiveness in this industry. In fact, imports of such Mexican goods far outweigh the competitiveness of any other beneficiary developing country and even exceed imports of these spring products from developed countries like Japan and West Germany. Therefore, in the presence of a healthy domestic industry for springs, leaves for springs and helical springs, Mexico should not have been granted GSP preferential treatment as, relative to other developing beneficiary countries, Mexico is sufficiently competitive and injury would inure to the domestic industry.

This conclusion is certainly equitable when one considers that U.S. exports of springs and leaves for springs for motor vehicle suspension to Mexico were only $2.7 million in 1985, $1.2 million in 1986, $2.0 million in 1987, and $3.5 million in 1988 and 1989. It is interesting to note that the Mexican rate of duty on such imports, according to the U.S. Department of Commerce, is 10 percent ad valorem, 15 percent Value Added Tax, and .06 percent Customs and Handling on helical springs and 15 percent ad valorem, 15 percent Value Added Tax, and .06 percent Customs and Handling on leaf springs ; each substantially greater than the 4 percent U.S. ad valorem duty rate.

Since the early 1980's, the Trade Policy Staff Committee has had a policy of "recommending that the President deny such redesignation for most articles from beneficiary developing countries that are one of the Newly Industrialized Economies (NIEs) (for example, Taiwan, South Korea, Hong Kong, Singapore, Mexico, Brazil, and Israel) and for certain other articles for which redesignation was expected to have a negative impact on U.S. producers." As part of the 1990 redesignation decisions, this policy was reconsidered.

This policy serves to support the principle behind the GSP system that preferential treatment should be afforded only to those U.S. imports from developing countries which need competitive assistance. By virtue of the fact that the NIEs are industrialized, such countries are placed beyond any automatic "need" determination for the majority of goods sought to be imported. It is important to note that the current wording of the policy does not wholly negate the potential for redesignation of GSP eligibility but provides that it is inappropriate for "most articles." As worded, the policy does not preclude GSP treatment for certain items upon a showing of need.

Finally, the current policy supports the maintenance and/or growth of affected domestic industries. The latter portion of the policy statement expressly states that redesignation should be denied for "certain other articles for which redesignation was expected to have a negative impact on U.S. producers." This creates the necessary flexibility within the review process to also permit a denial of redesignation when U.S. producers would be harmed. This portion of the policy is laudable by its very nature.

The current policy buttresses the underlying principles of the GSP Program to afford assistance only where there is a "need"; properly apportions the burden on the party seeking relief; and supports domestic industry in the face of potential harm.

Nonetheless, the redesignation of an item for GSP treatment is within the discretionary authority of the President, and, on April 26, 1990, by Presidential Proclamation, certain automotive springs from Mexico were redesignated for GSP preferential treatment.

SMI members believe that the elimination of U.S. import duties for such springs from Mexico under the GSP at this time will have an adverse economic impact on the U.S. spring industry. This discretionary policy decision is an ill-timed and somewhat exaggerated response to the still tentative policy reforms being undertaken in Mexico. For these reasons, and because of industry concerns about the much greater economic adjustments implied by a proposed free trade agreement with Mexico, SMI and its members are very interested parties in the emerging debate over the economic merits of a comprehensive U. S. - Mexico FTA.

At the time of the negotiation of the U. S. - Canada Free Trade Agreement, spring manufacturers did not oppose such negotiations nor today would they oppose the negotiation of a similar agreement with Mexico. However, as U. S. trade negotiators prepare for such a comprehensive negotiation, a number of issues should be thoroughly analyzed with input from the Congress and from private industry sectors. The central issue to be analyzed on both a macroeconomic and industry-specific basis is the wide disparity in the level of economic development, worker compensation, and productivity between the two countries. Comparisons should be incorporated, not only with Canada, but as well with other non-North American countries which are Mexico's primary competitors in the U. S. market, e.g., Japan, Germany, United Kingdom, Korea, Taiwan, Singapore, and in the case of springs, even Barbados. Analysis of key negotiating objectives should include a study of the economic trade-offs and opportunities in key manufacturing sectors, including automotive springs.

Mexico's stated negotiating priority for special co-production arrangements, would involve both expanding use of Mexican materials and components (including automotive springs) by the maquiladora industry, and better linkage of Mexican facilities with the U. S. manufacturing base and market.

If it is true that a clear goal of the Mexican goverment is for Mexico to become the small car production base for the entire North American market, then it is particularly essential that our negotiators monitor the new automotive trade rules announced by Mexico late last year and which are scheduled to take effect in November of this year. While the U. S. has treated automotive imports from Mexico essentially the same way other imports are treated, i.e., our market is primarily an open market, Mexico has in the past had restrictive rules. The limited liberalization expected under the new rules to take effect in November should be monitored to determine whether two-way trade is expanded or whether the effect will be to increase the U. S. automotive trade deficit with Mexico. The fact that Ford and Volkswagen have closed U. S. production facilities and replaced them with Mexican production and that Nissan has announced plans to invest $1 billion in Mexico in the next five years and Honda has a motorcycle assembly plant in Guadalajara is certainly an indication that U. S. negotiators must monitor not only macroeconomic effects but industry-specific concerns as well.

Just as in the case of the Canadian negotiations, any trade agreement with Mexico must include provisions relating to the elimination of direct and indirect tariffs, rules of origin, and efficient dispute resolution procedures. In principle, the Bush Administration and the Mexican Government have already agreed that the "full, phased elimination of import tariffs; the elimination or fullest possible reduction of non-tariff trade barriers;...and the establishment of fair and expediting dispute settlement procedures;" should be included in any free trade agreement. Yet while this "phased" elimination of direct and indirect tariffs (very similar to the phase-out now underway with Canada) has been championed by several proponents of an FTA, no one group wants to pay unnecessary export taxes in the interim.

Finally, Congress and our trade negotiators must maintain constant vigilance vis-a-vis the Uruguay Round negotiations and timetables as well as the strong Canadian interest in U. S. - Mexican discussions. Quid pro quo tariff negotiations impact the U. S., Mexico, and Canada, bilaterally, trilaterally and multilaterally through the Uruguay Round negotiations. Automotive trade is more specifically impacted in the case of Canada by the Automotive Parts Trade Agreement. And finally, there is serious consideration being expressed that there are at least three options with respect to the North American market, i.e., that Mexico could accede to the U. S. - Canada FTA; or that a new trilateral agreement could be negotiated; or, as is contemplated by the current negotiations, that the North American market be governed by two co-existing free trade agreements between the U. S. and Canada and between the U. S. and Mexico.

SMI and its member companies appreciate this opportunity to participate in the Subcommittee's consultation process with U. S. private sector groups regarding a comprehensive FTA with Mexico and hope to continue the consultative process as negotiations proceed on these important issues in the coming months.

18457-90049
7838A

Submitted on behalf of SMI by:
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Counsel for the Spring
Manufacturers Institute, Inc.

The Honorable Representative Sam Gibbons, Chairman
The Ways and Means Committee / Trade Subcommittee
The U.S. House of Representatives
Washington, D.C. 20515-6354

Dear Representative Gibbons

May we respectfully petition the Trade Subcommittee of the Ways and Means Committee to accept this letter and its attachments as written testimony on bills H.R. 1360 and H.Con.Res.59, which deal with a U.S.-Mexico free trade agreement.

We are aware that the deadline for written testimony has expired. May we nevertheless respectfully petition the Subcommittee to grant some consideration to our predicament and our motives. We are an Association of small investors in a project in Mexico, most of us Americans, scattered through several States, with modest resources, and no eyes nor ears on Capitol Hill. We learned of these bills from the press; when we inquired about testifying, the deadline had passed. Yet, our experience sheds such a vivid light on the down-to-earth realities of doing business in Mexico, that we feel a strong moral duty to share it with all our fellow Americans, that they may be saved from the ordeal of repeating it. It is this feeling of duty that inspires us to insist in petitioning your Subcommittee to still accept this testimony.

The basic teaching of our experience is that in Mexico there is no such thing as equal accountability before the Law: on the contrary, there is a class of people who can violate laws and contracts with full impunity. What's more, these people control all significant businesses. An American who trades or conducts business in Mexico may be likely dealing with companies controlled by Mexicans who enjoy impunity. When that happens, and it happens much too often, he cannot enforce prevailing contracts and laws, nor protect his assets from de facto confiscation. In such circumstances, a free trade agreement with Mexico, and the enhanced inducements to invest in that Country that it would bring about, can only lure Americans into costly business traps.

These circumstances have their roots in the Country's one-party political system. In the last sixty years, the ruling PRI party has dominated all of the public and the private sectors of Mexican Society. During this time, all Federal, State and local governments have been in the hands of the PRI: 1989 was the first time that an opposition candidate was elected Governor of a State: President Salinas himself restrained the local Party machine from stealing this election. Instances of non-PRI mayors have been extremely rare. The PRI establishment is not heavily ideological: its basic concern is power - and not just for the sake of power, but more yet for the sake of money. Therefore, it is not content with controlling all governmental and public institutions: it also controls all business of consequence. To guarantee its power, it imposes a Policy of Impunity: establishment members literally have an unwritten but ironclad license to steal, to strong-arm ordinary people, to resort to unrestrained violence in coercing opponents, to act in the most arbitrary manner without fear of consequences.

Mexican Law, which in itself is far from bad, applies only to ordinary people. Therefore, ordinary people have rights only as long as they deal with others like them: face to the members, or the enforcers, of the power clique they have no rights at all. This situation has been well documented with respect to human rights, by the recent Americas Watch Report *"Human Rights in Mexico: A Policy of Impunity"*, and by various articles and TV documentaries. Though less mentioned, other rights, such as those of businessmen and investors, are equally unprotected, and for the same reason: the Policy of Impunity. A foreigner doing business or investing in Mexico is an ordinary person: as such he is subjected to the full force of all prevailing laws and contracts, but he cannot count on enforcing these laws and contracts on others, nor on the protection of the Law, since he is most likely dealing with people who enjoy impunity and can extort his assets at will.

The greed and strong-arm tactics of the PRI power clique have driven the Mexican economy into the ground, and the ordinary Mexican people with their back against the wall. An ever increasing mass of Mexican crash our border in order to make a living; those who stay at home are getting more and more restless. The situation in Mexico is approaching that of Eastern Europe one year ago: the Party's grip can't be enforced much longer. It remains to be seen whether it will be eased out peacefully, or it will collapse amid bloody civil strife. President Salinas misses no chance to advertise his good intentions, but meanwhile the populace's growing defiance is met with growing intransigence by his Party's power machine. In many communities, specially in the States of Michoacan and Guerrero, stolen elections are being enforced against the recalcitrant citizenry by the naked power of the Army, not without the spilling of blood. Our direct experience in the domain of property rights tells that the intransigence of the power clique is becoming sterner and nastier. Deluding itself to be as immune from reality as it is from the Law of the Land, the Mexican power clique is driving the Country into an explosive situation. President Salinas' attempts to pacify the restless populace by the sparse though highly publicized scattering of pork barrel goodies won't defuse the powder keg.

It appears, then, that two problems confront us from south of the border: massive illegal immigration and the much underestimated danger of political instability. The proposed free trade agreement will help neither of them, because, unless things change, only the power clique stands to benefit from it, as it did from the lending orgy of a dozen years ago. At that time we were told that generous loans would allow Mexico to build a modern infrastructure and invest in production facilities, creating jobs and prosperity. Instead, things got worse. And now we're being led down the same primrose path, hearing this time of the wonders to be reaped from a free trade agreement. The fact is that the Mexican situation won't improve unless two conditions prevail: a drastic loosening of the PRI machine's grip on all public and private sectors of Mexican Society, and a full stop to the Mexican Government's unwritten but ironclad Policy of Impunity.

Hard as these conditions may seem to achieve, they are not unrealistic. Many members of the Mexican Government and the PRI's upper echelons are not as blind to reality as the power clique below them. Increasingly uncertain of the future of their rule, they are becoming sensitive to criticism. In response to Human Right complaints, President Salinas has just created a National Human Rights Commission. Whether the work of the Commission will be effective or merely cosmetic will depend on the follow-through pressure of Mexican and American human rights groups: Mr. Salinas' actions don't give the impression that it is a gimmick. It may rather be a message to his own Party machine.

The negotiation of a free trade agreement offers a strong opportunity to achieve a similar improvement in economic rights. As a condition of the agreement, the Mexican Government should be required to establish a National Economic Rights Commission, which would guarantee the speedy redress of grievances related to trading or other business or investment activities in Mexico. Such a measure would loosen the grip of the power clique on the whole Mexican economy, and stop the Policy of Impunity in the realm of business. Therefore, it would greatly benefit the Mexican economy even without a free trade agreement, more yet with it. The Country's stability and the illegal immigration problem would be improved in the process. As the Human Rights precedent shows, there is no reason for pessimism over the Mexican Government's response to this condition. President Salinas - as most of the people around him - will not be blind to its potential benefits: he will accede to it if it is necessary to achieve this agreement he so strongly wants. And he is aware that he won't make good on his promise of better times for Mexico unless he becomes more assertive over the stale PRI Establishment. On the other hand, making a free trade agreement without requiring the measure outlined above, or an equivalent protection, would be highly prejudicial to American interests, as it would expose Americans to dangerous business traps.

To conclude, we wish to stress that ours is not a Gringo vs. Mexican story: our Association includes Mexicans members. Also, we are acting in concert with other Mexicans who, although in a different situation, are experiencing similar difficulties. This testimony, which expresses shared American and Mexican views, is the unadorned distillate of the day-to-day experience of a group of ordinary persons doing business in the Mexican economic environment - an environment dominated by people who can violate contracts and laws with full impunity.

Honorable Mr. Gibbons, Honorable members of the Trade Subcommittee, in submitting our testimony to your attention we are complying with a deeply felt moral obligation. Please search the deepest recesses of your conscience as you decide whether to accept it or reject it.

Respectfully

Leonardo Cavallaro - Aug 15 1990

The Valmarvest Association
20 Corporate Park, Suite 290, Irvine, CA 92704
by Dr. Leonardo Cavallaro, P.E., President

Attachments:
1. Digest titled "How Mexico's Policy of Impunity can lock you out of your property".
2. Sample of letter about to be addressed to Rep. Gibbons by several of our members through their Representatives.

The VALMARVEST Association - 20 Corporate Park #290, Irvine, CA 92702

HOW MEXICO'S POLICY OF IMPUNITY CAN LOCK YOU OUT OF YOUR PROPERTY

An ordinary Mexico investment story

The sales office was in the Puerto Vallarta Holiday Inn, the sales force was made of Americans and Canadians, the Holiday Inn logo was everywhere, association with the Holiday Inn was stressed at all turns. That is how we were sold on investing in a deluxe Suite condo tower addition to the older Inn facilities. It was too late when we realized that the deal had been set up by the owner of those facilities, a company called Ocasa, in order to get this modern addition built at our expense, but for its own exclusive benefit.

As required in Mexican coastal areas, we couldn't buy the Suites directly, but through a Trust. In our Trust, Ocasa is the Trustor (it provided the land), the project's developer (a company called Vallamar) was the initial Beneficiary, and we became successor Beneficiaries as we bought the Suites. We bought many before construction, so we provided the cash. The Trustee is Bancomer, a Government-owned Bank which is the second largest in Mexico. As in all Trusts, we cannot act directly on matters that concern our property, only the Trustee can - and he has a fiduciary duty to always act in a way that protects our interest.

Oblivious to that duty, Bancomer contracted as property Administrator none but Ocasa, which was owned by Mr. Eduardo Aviña Batiz, a member of the Mexican Parliament and the boss of the ruling PRI Party machine in Guadalajara. A recent Drug Enforcement Administration Report mentions Mr. Aviña Batiz as a partner of the Guadalajara drug cartel involved in the murder of DEA agent Enrique Camarena (See Appendix A). Recently, Mr. Aviña Batiz sold Ocasa to a member of a very wealthy and powerful Mexican family. The word out in the street is that this family is involved in drug money laundering, but we don't know of any report or reliable source that verifies this rumor. Bancomer also made a contract with Posadas (the Holiday Inn's licensee in Mexico) for the operation of our Suites as part of the Puerto Vallarta Inn. Posadas, a large hotel operator, has a long history of association with Mr. Aviña Batiz, who has been (and may still be) a member of its Board of Directors.

Ocasa runs our property as if it owned it, breaching all prevailing Contracts and Laws. It keeps none of the legally required books, just loose, unverifiable and commingled accounts. The belated statements it occasionally sends us are elusive, garbled and misleading. Returns on our investment are trifling and rare, yet the tower built with our money makes millions. In violation of legal requirements, only two Condo Owners' meetings have been held in four years; their resolutions have been disregarded. The list could go on and on. Many violations bring its perpetrator no advantage: their sole purpose is to impress on us that Ocasa can violate all contracts and laws with the utmost impunity, while we must submit to any indignity because we have neither power nor influence. The recent change of ownership did not make things better.

In violation of its fiduciary duties, Bancomer adamantly refuses to enforce Ocasa's obligations, ignoring our well documented requests, or rejecting them as "improper". The impropriety must lie in our naive pretension to assert our right in a Country where only might counts. Indeed, Bancomer, like Ocasa, and often Posadas, acts disdainfully and imperiously, missing no chance to slight us and make us feel powerless.

Reluctant to submit to de facto confiscation of our property, we decided to seek redress in Court. It was a tough decision. The lawsuit's cost is heavy, though shared by about a hundred of us - none rich, many impecunious. But, more yet than our interest, we must defend our dignity. We can't acquiesce to being pushed around and humiliated like this.

We filed suit last March in Federal Court in Mexico City, against Bancomer, Ocasa, Posadas and Vallamar (the Developer), demanding that they give full account of their performance under all the prevailing contracts and laws. None of the defendants appeared in Court. We have, thus, judicially proven that all those who handle our property refuse to give us an account of their handling. However, their failure to show up in Court means that they are so damn sure of their impunity that they don't care if a judgment is confessed against them.

We filed a second complaint in May, bringing evidence to Ocasa's violations of Contracts and Laws, and suing to have Bancomer remove Ocasa as Administrator. Bancomer refused to do so, claiming it is unaware of any violations by Ocasa, without yet rebutting any of our charges against the latter. Again, the defendant behaved as if assured of impunity.

We will shortly sue the Mexican Government (for having granted its permit to an illegally framed Trust), and Bancomer, Ocasa, Posadas and Vallamar, demanding the dissolution of the Trust and the rescission of all contracts entered under it. After that, we'll bring a criminal complaint against the individuals who have damaged our interest, such as Mr. Aviña Batiz and others. We expect to win these cases (the unceasing illegality of the defendants' behavior is indisputable and blatant), but enforcing the judgments may prove rather difficult: we are dealing with people who can violate contracts and laws with full impunity.

All power and all business are controlled in Mexico by people like these. They make up the power machine of the PRI Party, which has controlled the Government for the last sixty years. At the basis of their power is the Mexican Government's Policy of Impunity: they literally have an unwritten but ironclad license to steal, to strong-arm ordinary people, to resort to unrestrained violence in coercing opponents, to act in the most arbitrary manner without fear of consequences. You can't defend yourself from this power clique: face to them, you have no human rights (as documented in the recent Americas Watch Report *"Human Rights in Mexico: A Policy of Impunity"*), nor rights of any other kind. A foreigner doing business or investing in Mexico is likely to be dealing with Companies controlled by people who enjoy impunity. There is no certainty that he will be able to enforce contracts or laws, or that the Law will protect him from de facto confiscation of his assets. Not many are aware of this reality: MAY OUR EXPERIENCE BE A WARNING TO ALL! SOUTH OF THE BORDER, NOT ALL ARE EQUALLY ACCOUNTABLE BEFORE THE LAW! ALL BUSINESS IS CONTROLLED BY PEOPLE WHO ENJOY IMPUNITY: THERE IS NO PROTECTION FROM THEIR EXTORTIONS! THAT MAKES IT VERY RISKY TO INVEST OR DO BUSINESS IN MEXICO!

What's more, a foreigner doing business in Mexico can only seek redress through the Mexican legal system (the very system that doesn't restrain powerful bosses from extorting his assets). If he tries to get help or protection from his own Country, then, under Mexican Law, his assets are seized by the Government (catch 22!). Therefore, we can't even ask for help, and we aren't. We only want to publicize our case in order to help others - to protect them from falling in the trap we fell in.

APPENDIX A - EXTRACT OF DEA REPORT DATED FEB. 13 1990

A DEA Report dated Feb. 13 1990 was produced at a recent trial in Federal Court in Los Angeles, in which Mexican nationals were convicted of the abduction and murder of DEA agent Enrique Camarena. Among those convicted was Mr. Rubén Zuno Arce, a brother in law of a former Mexican President. The report (called a "D-6" in DEA terminology) is a transcript of the statements made by a witness whose identity was not disclosed by the DEA (but was leaked by defense attorneys at the trial). Sections of the Report have been published in the U.S. A Spanish translation of the entire document appeared on a Mexico City magazine. The following are the report's sections 28 through 32, re-translated into English from the Spanish translation:

28. Rubén Zuno Arce (RZA), who has a known history of heroin traffic since the early seventies, had access to several airstrips through a man called Juan Aviña Batiz. RZA is a pilot in Mexico, with license #5747, on the basis of which he had received in 1978 U.S. pilot license #0022 78454.

29. The brother of Juan Aviña Batiz is Eduardo Aviña Batiz, boss of the PRI in Jalisco and the Deputy for the ninth electoral district.

30. Eduardo Aviña Batiz is known to be the former partner of RZA in the heroin traffic. Apparently, one month ago (i.e. Jan. 1990) the witness and Aviña Batiz had a conversation in which Aviña stated that the flow of drugs to the U.S. is the best solution to the problems of Latin America. The poisoning of American youth is the best response of the economically depressed Latin American masses to the imperialist actions of the United States.

31. The witness states that Eduardo Aviña Batiz is a strong contender for the Governorship of the State of Jalisco, in view of the expected exit of Guillermo Cosio Vidaurri, uncle of Sara Cosio, the companion of Rafael Caro Quintero, who abducted her to Costa Rica when fleeing from justice because of the Camarena murder.

With reference to item 30, it may be interesting to note that Mr. Eduardo Aviña Batiz is a very wealthy businessman, who owns highly (and assuredly) profitable companies.

APPENDIX B - THE POSITION OF HOLIDAY INNS INC.

As soon as our problems became evident, we protested them to Holiday Inns Inc. of Memphis, TN. They disclaimed any association with our project, maintaining that use of their name and logo in the project's marketing had taken place without their knowledge or consent. Various circumstances, some of them dealt with in Appendix C, give a strong basis for disputing the truth of this statement. Subsequent letters to Memphis were not answered at all. We have legitimate complaints against Holiday Inns Inc., but we lack the resources needed to finance a lawsuit against such a giant.

APPENDIX C - THE VALLARTA HOLIDAY CLUB

The Vallarta Holiday Club is a Netherlands Antilles Company that owns some Suites in our tower. From sales offices within the Vallarta Holiday Inn, it sells hotel guests timeshare intervals in its Suites, giving the impression that it is affiliated with the Holiday Inn. The sale is executed in Mexico, the payments are collected in the U.S., and no tax is paid to either Country. We have long protested the favored treatment received by the Club, which damages our interest. At one point the hotel Management consented to issue a disclaimer warning the guests that the Club is not associated with the Inn. The disclaimer was withdrawn within a few days. We wrote Holiday Inns Inc., warning them of their name's and logo's use in the Club's sales campaign (they can't deny knowledge this time!) and asking that the disclaimer be reissued. Our letter was not answered, nor the disclaimer reinstated, which proves the Holiday Inns' consent to the use of its name and logo for the marketing of the Holiday Club's wares. It was common knowledge that the Holiday Club was owned by Mr. Aviña Batiz. It is not clear whether he still owns it or he sold it together with Ocasa.

The Honorable Representative Sam Gibbons, Chairman
The Ways and Means Committee / Trade Subcommittee
The U.S. House of Representatives
Washington, D.C. 20515-6354

Dear Representative Gibbons

May I respectfully submit my petition to testify before your Subcommittee (whether directly or through a spokesman representing me) at the next hearings that will be held on bills H.R.1360 and H.Con.Res.59, dealing with a U.S.-Mexico free trade agreement. If no further hearings are held by your Committee, may I be allowed to testify in writing.

My close experience of the Mexican business environment will shed a true light on the down-to-earth realities of doing business in Mexico.

A basic requirement of all business activities, including trade, is the assurance that Contracts and Laws can be enforced, and that all are equally accountable before the law and likewise enjoy equal protection under the Law. THERE IS NO SUCH ASSURANCE IN MEXICO.

In Mexico, all power and all business are controlled by a ubiquitous clique, which can act in the most arbitrary way without fear of consequences, violating laws and contracts with complete impunity. The power clique's impunity, strong arm tactics, and readiness to resort to violence are well documented in the recently published Americas Watch Report "Human Rights in Mexico: A Policy of Impunity". Although the Report only deals with Human Rights, the picture it presents applies just as well to other rights, in particular to businessmen's and investors' rights. A foreigner who trades or transacts any business in Mexico is likely to be dealing with Companies controlled by people who enjoy impunity. Accordingly, he is far from sure of being able to enforce compliance with Contracts he has entered into, or with applicable Mexican Laws. However, he is himself subjected to the full force of such Contracts and Laws.

Under these circumstances, a free trade agreement with Mexico (and the increased investment in that Country that it would naturally encourage) can only lure Americans into costly business traps. The agreement will not be fair and equitable unless the Mexican Government provides ironclad guaranties that it will promptly put an end to the impunity of the power clique and bring Mexico under the Rule of Law.

May I bring before your Subcommittee substantive evidence to the statements made above, based on my experience as a fellow small investor in a Mexico Project, and fellow plaintiff in a collective Lawsuit in Mexican Federal Court.

Respectfully yours

dated

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